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SENATE

REPORT
No. 98-35

BRETTON WOODS AGREEMENTS AMENDMENTS ACT OF 1983

MARCH 24 (legislative day, MARCH 21), 1983.—Ordered to be printed

Mr. PERCY, from the Committee on Foreign Relations, submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany S. 695]

The Committee on Foreign Relations, to which was referred the bill (S. 695) to amend the Bretton Woods Agreements Act to authorize consent to and authorize appropriations for an increase in the United States quota in the International Monetary Fund and to authorize appropriations for increased U.S. participation in the IMF's General Arrangements to Borrow, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended, do pass.

PURPOSE

S. 695 would authorize the U.S. Secretary of the Treasury (U.S. Governor to the IMF) to agree to an increase of SDR 5,310.8 million (equivalent to $5.8 billion) in the U.S. quota to the IMF, thereby raising it from $13.8 billion to $19.6 billion. (The U.S. quota share will be 19.9 percent of the expanded quotas down from 20.7 percent.) The bill would also authorize appropriations for that purpose. In addition, the bill would authorize appropriations of approximately $2.7 billion in order to increase the amount of funds which the U.S. may lend to the IMF under the General Arrangements to Borrow (GAB) from $2 billion to $4.7 billion (SDR 4.25 billion). The U.S. share of the expanded GAB would be 25 percent, down from the current 28 percent.

This bill is required by Section (5) of the Bretton Wood Agreements Act—the legislation governing U.S. participation in the

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International Monetary Fund (IMF) and International Bank for Reconstruction and Development (World Bank Group)—which requires prior Congressional approval before the U.S. Secretary of the Treasury may agree to any increases in the U.S. quota in (IMF), or before the U.S. can commit to any increases in loans to the IMF.

Background

THE INTERNATIONAL MONETARY FUND

The IMF was established after World War II to facilitate global economic growth and stability by providing a sound, cooperative framework for the conduct of world trade and financial transactions. The IMF serves as the central international monetary institution for its 146 member countries. It is charged with the responsibility of overseeing the operation and evolution of the international monetary system and providing a framework within which international monetary relations may be conducted.

In the process of carrying out its broad mandate, the IMF assists individual members with balance of payments problems by extending short term loans in conjunction with the implementation of economic stabilization programs, which have been negotiated with the IMF and which are designed to eliminate external accounts imbalances. The ordinary resources of the IMF are provided by all member countries in the form of quotas and are available to all members on the basis of uniform conditions and criteria.

The IMF's lending operations are based upon the so-called tranche system. The reserve tranche, which is equal to a member's quota, is available automatically and unconditionally when a member indicates it has a need for balance of payments assistance. There are also four so-called credit tranches, each equal to 25 percent of a member's quota. Upper credit tranche loans are obtainable by a member only after a mutually acceptable economic stabilization program has been agreed to by the IMF and the member concerned.

Historically, industrial nations have been the major recipients of IMF funds. The United States has been a very significant user of IMF resources, it has drawn upon the Fund 24 times for a total value of $6.5 billion, most recently $4 billion in 1978 to assist the Federal Reserve in supporting the value of the dollar on foreign exchange markets. The U.S. is second only to the United Kingdom in drawing from the Fund—the U.K. has drawn over $13 billion of Fund resources.

The IMF performs an important role in encouraging countries to adopt economic programs which will ultimately produce balanced and sustainable economic growth. A robust international economy is valuable to the U.S. since the ability of other nations to purchase U.S. products is dependent upon that growth. In recent years, the U.S. economy has become increasingly dependent on foreign sales with approximately 20 percent of U.S. production destined for exports.

REVIEW OF QUOTES

The IMF Articles of Agreement provide for the periodic review of Members' quota levels—at intervals of not more than five years. During these reviews, if a large majority of members concur, adjust-

ments of quotas may be recommended. However, individual members' quotas can not be changed without the consent of the member concerned.

Prior to the most recent quota review, there have been seven general reviews of quotas with increases in quotas recommended and approved on five occasions, most recently in 1980. The original timetable for the most recent review—the eighth quota review—provided for the completion of that review by late 1983, with implementation of any proposed quota increases to enter into effect by 1985. However, in September 1982, the IMF Members agreed to accelerate the schedule for completion of the negotiations in view of the serious strains on the international financial system. Indeed, by early 1983, only about SDR 9 billion remained available to the IMF for new programs. In February 1983 plans were finalized for an increase in quotas and an expansion of the GAB.

The proposed increase in IMF quotas is designed to halt the decline in the size of quotas vis-a-vis other economic aggregates such as levels of GNP and value of world trade. For example, as a proportion of world imports, IMF quotas have fallen from 12% in 1960 to 3.8% in 1982, at the same time that the demands for IMF resources have multipled. The proposed increase in quotas, when implemented, would raise IMF quotas as a percent of world imports to 5.2% in 1983, thereby enhances its ability to provide assistance to its members in times of need.

THE GENERAL ARRANGEMENTS TO BORROW

The GAB is an arrangement first established in 1962, under which the ten major industrial country members of the IMF, the so-called G–10 (U.S., U.K., France, Germany, Italy, Japan, The Netherlands, Sweden, Belgium and Canada) agreed to lend additional amounts of their currencies, above and beyond the quota mechanism, totalling $7 billion (U.S. share $2 billion) on a contingency basis to the IMF to finance drawings from the IMF by any of the members of the G–10. Lines of credit under the GAB have been activated for drawings by four of the ten participants in eight of the twenty years since its inception, including drawings twice by the U.S., in 1966 and 1978.

In 1982, during consideration of the adequacy of IMF quotas, the U.S. proposed that consideration be given to the creation of additional contingency borrowing arrangements, to supplement any quota increases agreed to. These contingency arrangements would then be available for the IMF to call upon in case of need in order to deal with serious and sizeable balance of payments requirements which could threaten the stability of the system. To this end, it was agreed that the existing GAB arrangement be expanded to $19 billion and modified to meet a broader goal. Switzerland has joined the original G–10.

GAB members will continue to have access to lines of credit as provided in the 1962 arrangement. However, in addition, these credit lines could also be activated for conditional financing for other IMF members, in exceptional situations associated with requests from countries with balance of payments problems of a character or of an aggregate size that could pose a threat to the stability of the international

monetary system. G–10 Members whose lines of credit are activated by the IMF will receive interest on these outstanding lines of credit on a quarterly basis (the interest rate paid will be based upon the average of short-term market interest rates in the U.S., U.K., Germany, France, and Japan). The following chart provides a breakdown of individual members' proposed new commitments to the GAB:

	In millions of SDR's	Shares in percent
United States	4, 250. 0	25. 00
Germany	4, 380. 0	14. 00
Japan	2, 125. 0	12. 50
France	1, 700. 0	10. 00
United Kingdom	1, 700. 0	10. 00
Italy	1, 105. 0	6. 50
Canada	892. 5	5. 25
Netherlands	850. 0	5. 00
Belgium	595. 0	3. 50
Sweden	382. 5	2. 25
Switzerland	1, 020. 0	6. 00
Total	17, 000. 0	100. 00

Note: 1 SDR=$1.09.

Committee Action

The Committee began preparation for an anticipated request for increased funding of the IMF several months before March 2, 1983, when the formal legislative request was transmitted to the Congress. The International Economic Policy Subcommittee held four hearings in order to analyze the strains being placed on the international economy by the current international recession, on January 10th, January 19th, February 1st, receiving testimony from a variety of experts on the international monetary system including several former Secretaries of the Treasury, bankers, and economists.

In addition, the full Committee held two days of hearings on February 15th and 23rd to receive testimony from Secretary of State George Shultz and Secretary of the Treasury Donald Regan on the specifics of the proposed legislation and to receive their analyses as to why it was in the U.S. interest to accede to the IMF Quota increase and the expansion of the GAB.

On March 7, 1983 at the request of the Administration, Senator Percy introduced the proposed draft legislation (S. 695).

On March 15th the Foreign Relations Committee marked-up S. 695 and added three amendments. On March 16th the Committee reported the bill favorably by a vote of 13 to 1 with Senators Percy, Baker, Lugar, Mathias, Boschwitz, Murkowski, Pell, Biden, Glenn, Sarbanes, Zorinsky, Tsongas, and Dodd voting in the affirmative and Senator Helms voting in the negative.

During the course of the markup five amendments were offered, of which three were adopted by voice votes. Two amendments were withdrawn at the request of the Chairman because he believed the latter amendments would be better offered during consideration by the Banking Committee, to which the bill will be sequentially referred.

The Committee adopted an amendment offered by Senator Dodd and cosponsored by Senators Percy and Mathias. This amendment is designed to improve the quantity and quality of information available to the IMF concerning cross-border lending and borrowing by the public and private sectors of its member countries. As modified by a

proposal offered by Senator Sarbanes, this amendment also calls for the establishment of a procedure, within the IMF, for review and comment on any anticipated extension of credit to members which the IMF determines to be of significant monetary value given the state or size of a member's economy.

In addition, the Committee adopted two additional amendments offered by Senators Percy and Pell. The first of these amendments would require that the Secretary of the Treasury seek Congressional authorization in advance of agreeing to any significant modifications in the February 24, 1983, decision by the Board of Directors of the IMF, which establishes the terms and conditions of the expanded GAB, where such amendments would significantly affect the terms, conditions, or amount of U.S. participation. The second amendment directs the Chairman of the Federal Reserve, the Secretary of the Treasury and the Secretary of State to consider whether it is in the interest of the U.S. to join the Bank for International Settlements.

Committee Comments

CURRENT GLOBAL ECONOMIC SITUATION

The Committee held extensive hearings in January and February of this year on the current state of the international economy. Based upon the information received during the course of these hearings, the Committee believes the increase in IMF resources are wholly justified in order to meet the likely challenges posed by the international economy. In the course of these hearings, the Committee found a broad consensus among its witnesses, that the current world economy is in the deepest economic decline since the Great Depression of the 1930s. Unemployment, and idle plant capacities in the West are at thirty year lows. At the same time developing countries are experiencing the lowest commodity prices and the highest debt burden in the post World War II era. Continued contraction in the world economy may lead to what Felix Rohatyn warned would be "a unilateral repudiation of external debt by a country that is politically radicalized by depression, by IMF imposed austerity or a combination of both."

THE ORIGIN OF THE CURRENT ECONOMIC PROBLEMS

Witnesses noted that the debt crisis that emerged in 1982 had its roots in the rising inflationary pressures in the late 1960's and 1970's, the twin oil shocks of the 1970's, and official policy responses that attempted to mitigate the impacts of these forces on individual domestic economies. The results of these policies were higher inflation, slower economic growth and rising government sector deficits. The deep recession which ensued with the 1979 oil price increase was as much a result of tight monetary policies, especially in the United States, as it was a by product of the inflationary cycle generated by the price increase itself. In its wake, this recession has left 32 million workers in the OECD nations unemployed.

The effects in the developing nations have been considerably more severe. In order to maintain their high economic growth rates, the LDCs needed access to huge amounts of capital either through in-

creased aid flows from the West, or through commercial banking lending. Since the real level of concessional aid flows increased marginally, if at all, most of the larger LDC economies turned to the private commercial sector for their capital needs. Between 1973 and 1982 LDC private debt grew from $40 billion to $375 billion. Prior to the 1979 recession, these loans were a profitable business for the commercial banks as continued inflation reduced real interest rates and pushed up export earnings, thus providing the wherewithal for repayment. However, with tighter monetary policies being imposed by major industrial nations after 1979, and with concomitantly higher interest rates and slowing inflation, export earnings began to decline while demand for credit continued. New loans were then needed to refinance old debt. Debt service, expressed as a percentage of exports, has now risen to staggeringly high levels for some debtor-nations (e.g. 129% for Mexico, 122% for Brazil and 179% for Argentina).

RECOMMENDATIONS FROM HEARINGS

In addition to a strong endorsement in favor of U.S. participation in increasing IMF resources, the Committee also noted the following recommendations, which were offered in the course of Committee hearings, to deal with the current economic situation:

(1) Any global economic recovery will be predicated on the size and the rate of recovery in the United States economy. Real growth is linked to significant reductions in the huge federal budget deficits that have been projected through the late 1980s, particularly in the United States.

(2) There is a need for greater international coordination of policies between governments, multilateral institutions, and private lending institutions in formulating trade, financial, and domestic economic policies.

(3) Greater understanding is needed, particularly in the United States, about the economic linkages which exist among countries. It was noted repeatedly that we now export 10 percent of our GNP (double that of 10 years ago) and that 29 percent of our exports now go to the LDCs.

(4) In addition to expanded IMF resources, there is a need for continued commercial bank lending to many of these economically troubled countries in the near term, as well as increased multilateral and bilateral aid flows.

(5) Huge short term debts of the LDCs may need to be restructured into long term loans at more manageable interest rates. One of the most extreme forms this restructuring might take was a proposal to "write down" commercial bank loans by having some portion of them assumed by one or more multilateral agencies in order to meet the need for a long term low interest rescheduling of existing LDC debts.

(6) There may be a need for improved regulations and coordination of the international lending practices of the comercial banks.

(7) Some kind of stabilization of the main trading currencies should be a necessary part of any resolution of the current global economic problems; although there was no specific advocacy of a return to a fixed exchange rate system.

(8) On the subject of trade barriers and other protectionist measures, various proposals were suggested to improve GATT's dispute settlement mechanism, and to expand GATT's framework to include trade measures which have not come under its provisions or regulations.

COMMITTEE RECOMMENDATION

The Committee strongly supports the Administration's requested funding levels for the IMF. The IMF has played a critical role in mobilizing resources in support of adjustment programs in financially troubled countries, particularly in the most recent cases of Brazil and Mexico. It has been estimated that every dollar of IMF financing, in conjunction with economic adjustment programs, has acted as a catalyst in generating an additional four dollars of new commercial bank lending.

If the United States were to refuse to concur in the decision to provide additional resources to the IMF, this would not only be a failure of U.S. leadership, but also would endanger the long established structure if cooperative economic relationships which emerged after World War II, and which have contributed significantly to the growth of global trade and prosperity. Although the United States will contribute only 19% of the total increase in quotas, our willingness to participate is crucial to the enactment of the quota increases, and in addition will be important in ensuring the participation of other member countries in the expansion of IMF resources. The Committee found no acceptable alternative which could serve as a substitute for speedy approval of the requested enhancement of IMF resources.

SECTION-BY-SECTION ANALYSIS

The following is a section by section description of major provisions of the bill.

(a)(1) Amends Section 17 of the Bretton Woods Agreements Act by authorizing an increase in U.S. participation in the General Arrangements to Borrow as amended. (a)(2) and (3) authorize the Treasury to make resources available to the IMF to finance transactions in an amount not to exceed the equivalent of SDR 4.25 billion ($4.7 billion) as are appropriated in advance in appropriations acts. (a)(4) adds a new subsection at the end of Section 17, subsection (d), which will require the Secretary of the Treasury to seek advance Congressional authorization prior to consenting formally to any amendment to the curent GAB arrangement where that amendment significantly alters the amounts, terms, or conditions of U.S. participation in the GAB. This section is not meant to require prior approval for minor technical amendments to the arrangement, such as alterations of interest charges or payments which simply reflect changed market conditions, nor is it meant to require prior approval for additional lenders to join the arrangement or participate in some parallel manner.

(b) adds three new sections to the end of the existing Bretton Woods Agreements Act.

The first new section, Section 40, authorizes an increase in the quota of the U.S. in the IMF in the amount of SDR 5.3108 billion (approximately $5.8 billion). It authorizes appropriations for the dollar

equivalent of the SDR increase in the quota, and is worded such that the Appropriations Act will provide the full SDR amount as budget authority.

The second new section, Section 41, provides instructions to the U.S. Executive Director to discuss, propose, and vote for the adoption of procedures within the Fund which will improve the quantity and quality of financial information available to the Fund concerning cross-border lending and borrowing.

The provisions of Section 41(b), in particular, are intended to strengthen reporting on cross-border foreign exchange credits, i.e., borrowing or lending in currencies other than the currency of the county in which the borrower is principally established or local currency borrowing by a business not principally located in the country but which borrowing is made in support of such business, in order to permit more accurate assessment of countries' external debt positions. It is assumed that appropriate exclusions would be made for minor transactions and/or transactions by certain classes of borrowers, such as private individuals, whose transactions would not be expected to have a significant impact on the overall external debt position of borrowing countries.

Section 41(c) defines credit as any outstanding loan, either short term or long, to the private or public sectors of a member. It also includes any unused lines of credit which have been made available to a member. Section 41(d) authorizes the President to utilize authority available to him under the Bretton Woods Agreement Act in carrying out the purposes of this section. Section 41(e) requires the Secretary of the Treasury to report on progress toward implementing the provisions of this section within six months of enactment of this section into law.

The final new section, Section 42, is a sense of the Congress provision that relevant officials in the Administration should consider U.S. membership in the Bank for International Settlements and report their findings to Congress within three months after the provision becomes law.

Cost Estimate

The Standing Rules of the Senate require that Committee reports on bills contain a cost estimate for such legislation in the fiscal year it is reported and each of the five following years.

The Committee would like to call particular attention to the accounting treatment accorded U.S. participation in the IMF. An increase in the U.S. quota or line of credit to the IMF requires budget authorization and appropriation for the full amount of increases. The total, in this case about SDR 7.7 billion (approximately $8.5 billion), is included in the budget authority totals for the fiscal year requested—namely FY 1983 as part of the President's supplemental appropriations request.

Payment to the IMF of the increased quota subscription is made partly in reserve assets (SDRs or foreign currencies held by the U.S.) and partly in non-interest bearing letters of credit. A budget expenditure occurs only as cash is actually transferred to the IMF, either

through the 25 percent reserve asset payment, or through drawdowns of the letters of credit or borrowing arrangements. However, simultaneously with such transfers, the U.S. receives an equal offsetting receipt, representing an increase in the U.S. reserve position in the IMF—an interest bearing, liquid monetary asset that is available unconditionally to the U.S. in case of balance of payments need. As a consequence of these offsetting transactions, transfers to the IMF result in no net budgetary outlays, and therefore do not directly affect the U.S. Federal Budget Deficit.

The Congressional Budget Office has prepared the following cost estimate of S. 695:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., March 18, 1983.

Hon. CHARLES H. PERCY,
Chairman, Committee on Foreign Relations,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for S. 695, a bill to amend the Bretton Woods Agreement Act to authorize consent to and authorize appropriations for an increase in the United States quota in the International Monetary Fund and to authorize appropriations for increased United States participation in the General Arrangements to Borrow, as ordered reported by the Senate Committee on Foreign Relations on March 16, 1983.

Should the Committee so desire, we would be pleased to provide further detail on the attached cost estimate.

Sincerely,

JAMES BLUM
(For Alice M. Rivlin, Director).

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

MARCH 18, 1983.

1. Bill number: S. 695.

2. Bill title: A bill to amend the Bretton Woods Agreement Act to authorize consent to and authorize appropriations for an increase in the United States quota in the International Monetary Fund and to authorize appropriations for increased United States participation in the General Arrangements to Borrow.

3. Bill status: As ordered reported by the Senate Committee on Foreign Relations on March 16, 1983.

4. Bill purpose: This legislation authorizes the U.S. Governor of the International Monetary Fund (IMF) to consent to an increase in the quota of the U.S. in the Fund and authorizes the appropriation of the dollar equivalent of 5,310.8 million Special Drawings Rights (SDR) for the increase in the U.S. quota and 4,250 million SDR for an increase in loans to the IMF under the General Arrangements to Borrow (GAB).

5. Estimated cost to the Federal Government:

[By fiscal year, in millions of dollars]

	1983	1984	1985	1986	1987
Authorization level	10,464	....	....	....	....
Less: Existing appropriation	2,000	....	....	....	....
Net authorization	8,464	....	....	....	....
Estimated outlays	0	0	0	0	0

The costs of this bill fall within budget function 150.

BASIS OF ESTIMATE

This estimate assumes enactment of this legislation and subsequent apporpriation of the dollar equivalent of the amounts authorized in a fiscal year 1983 supplemental by July 1983. The authorization is denominated in SDR's, and international reserve asset. The dollar estimate is calculated using the SDR exchange rate of February 11, 1982, ($1.0945/SDR). Two billion dollars was appropriated for the General Arrangements to Borrow in fiscal year 1962, P.L. 87–872, and remains available to offset the higher SDR authorization.

Upon entering into force, 25 percent of the increased quota subscription will be paid to the IMF in reserve assets, either SDR's or foreign currencies, the remaining 75 percent will be provided in the form of a non-interest bearing letter of credit. In exchange for the SDR's and foreign currencies, the U.S. receives an increase in its reserve position in the IMF. This reserve position in the IMF is an interest-bearing, liquid international monetary asset that is available to the United States in case of balance-of-payment needs.

Under the letter of credit, the Treasury is committed to provide dollars upon call by the IMF. The GAB is a standby arrangement to loan additional resources to the Fund in exceptional situations to meet financing requests from member countries with balance of payments problems of a character or of aggregate size that could pose a threat to the stability of the international monetary system.

Under the guidelines established by the President's Commission on Budget Concepts and current practice, transfers of dollars to and from the U.S.. Treasury and the IMF under the quota or lending arrangements are treated as exchanges of monetary assets. Cash is decreased and international monetary reserves are increased or cash is increased and international monetary reserves are decreased depending on the direction dollars flow.

Transfers between the U.S. and the IMF do affect the Treasury's cash position and borrowing requirements. The interest cost of borrowing is largely offset by remuneration (interest) on the U.S. quota and interest of loans to the IMF. Such outlays and receipts fall in budget function 900, net interest. In addition, the U.S.. incurs exchange gains and losses on the U.S. reserve position in the IMF due to changes in the dollar value of the SDR.

Over the past fiscal year, the IMF has been calling on the existing U.S. letter of credit at the rate of $250 to $400 million per quarter. Because of the uncertainties regarding the future level of IMF financing; the portion of such financing that would be in dollars; and movements in market interest and exchange rates; it is impracticable to

estimate the net cost of any additional U.S. transactions with the IMF associated with enactment of this legislation.

6. Estimated cost to State and local governments: None.

7. Estimate comparison: CBO uses the OMB estimate of interest receipts and remuneration from the IMF in budget function 900. Realized gains and losses from valuation adjustments to the U.S. reserve position in the IMF are recognized as actuals at the end of a fiscal year, but neither OMB nor CBO attempts to estimate gains and losses in advance. Neither OMB nor CBO are estimating an outlay effect as a result of enacting this legislation and subsequent appropriation.

Both CBO and OMB are using the SDR/dollar conversion rate of February 11, 1983 in estimating the dollar equivalent of the SDR denominated authorization level.

8. Previous CBO estimate: None.

9. Estimate prepared by: Joseph C. Whitehill.

10. Estimate approved by:

C. G. NUCKOLS
(For James L. Blum,
Assistant Director for Budget Analysis).

EVALUATION OF REGULATORY IMPACT

In accordance with Rule XXVI, paragraph 11(b) of the Standing Rules of the Senate, the Committee has concluded that there is no regulatory impact from S. 695.

CHANGES IN EXISTING LAW

In compliance with paragraph 12 of Rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Bretton Woods Agreements Act, as amended

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FURTHER PROMOTION OF INTERNATIONAL ECONOMIC RELATIONS

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SEC. 17. (a) In order to carry out the purposes of the [decision of January 5, 1962] *decisions of January 5, 1962, and February 24, 1983, as amended in accordance with their terms*, of the Executive Directors of the International Monetary Fund, the Secretary of the Treasury is authorized to make loans, [not to exceed $2,000,000,000 outstanding at any one time,] *in an amount not to exceed the equivalent of 4,250 million Special Drawing Rights, limited to such amounts as are appropriated in advance in appropriation Acts*, to the Fund under article VII, section 1(i), of the Articles of Agreement of the Fund. Any loan under the authority granted in this subsection shall be made with due regard to the present and prospective balance of payments and reserve position of the United States.

(b) For the purpose of making loans to the International Monetary Fund pursuant to this section, there is hereby authorized to be appro-

priated [$2,000,000,000] *an amount equivalent to 4,250 Special Drawing Rights*, to remain available until expended to meet calls by the International Monetary Fund. Any payments made to the United States by the International Monetary Funds as a repayment on account of the principal of a loan made under this section shall continue to be available for loans to the International Monetary Fund.

(c) Payments of interest and charges to the United States on account of any loan to the International Monetary Fund shall be covered into the Treasury as miscellaneous receipts. In addition to the amount authorized in subsection (b), there is hereby authorized to be appropriated such amounts as may be necessary for the payment of charges in connection with any purchases of currencies or gold by the United States from the International Monetary Fund.

(d) Unless the Congress by law so authorizes, the President, the Secretary of the Treasury, or any other person acting on behalf of the United States, may not instruct the United States Executive Director to the Fund to consent to any amendment to the Decision of February 24, 1983, of the Executive Directors of the Fund if the adoption of such amendment would significantly alter the amount, terms, or conditions of participation by the United States in the General Arrangements to Borrow.

* * * * * * *

SEC. 40. The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 5,310.8 million Special Drawing Rights, limited to such amounts as are appropriated in advance in appropriation Acts.

SEC. 41. (a) It is the sense of the Congress that—

(1) the lack of sufficient information currently available to allow members of the Fund to make sound and prudent decisions concerning their public and private sector international borrowing, and to allow lenders to make sound and prudent decisions concerning their international lending, threatens the stability of the international monetary system; and

(2) in recognition of the Fund's duties, as provided particularly by Article VIII of the Articles of Agreement of the Fund, to act as a center for the collection and exchange of information on monetary and financial problems, the Fund should adopt necessary and appropriate measures to ensure that more complete and timely financial information will be available.

(b) To this end, the Secretary of the Treasury shall instruct the United States Executive Director to the Fund to initiate discussions with other directors of the Fund and with Fund management, and to propose and vote for, the adoption of procedures, within the Fund—

(1) to collect and disseminate information, on a quarterly basis, from and to Fund members, and to any other persons as the Fund deems appropriate, concerning—

(A) the extension of credit by banks or nonbanks to private and public entities, including all government entities, instrumentalities, and central banks of member countries; and

(B) the receipt of such credit by those private and public entities of member countries, where such banks or non-banks

are not principally established within the borders of the member country to which the credits are extended;

(2) to review and comment, on a timely basis, on such contemplated receipt of credit by any member as the Fund determines to be of significant monetary value given the current state and size of that member's economy; and

(3) to disseminate publicly information which is developed in the course of the Fund's collection, review, and comment efforts and which the Fund determines would serve to enhance the informational base upon which international borrowing and lending decisions are taken.

(c) As used in this section, the term "credit" includes—

(1) outstanding loans to private and public entities, including government entities, instrumentalities, and central banks of any member, and

(2) unused lines of credit which have been made available to those private and public entities of any member,

where such loans or lines of credit are repayable in freely convertible currency.

(d) The President is authorized to use the authority provided under section 8 of this Act to require any person (as defined by that section) subject to the jurisdiction of the United States to provide such information as the Fund determines to be necessary in order to carry out the provisions of this section.

(e) Within six months after the date of enactment of this section, the Secretary of the Treasury shall prepare and transmit to the Committee on Foreign Relations and the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives, a report on the progress made toward establishing collection, review, comment, and reporting procedures within the Fund, as provided by this section.

SEC. 42. It is the sense of Congress that the Chairman of the Federal Reserve, the Secretary of the Treasury, and the Secretary of State should consider U.S. membership in the Bank for International Settlements and report to Congress within 90 days of the enactment of this legislation on their findings.

Annex 1—Eighth Quota Increases

Proposed Resolution of the Board of Governors: Increase in Quotas of Fund Members—Eighth General Review

Whereas the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members—Eighth General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

Whereas the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Eighth General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

Now, therefore, the Board of Governors hereby resolves that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution [See table, pages 16–17].

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 3 below and has paid the increase in quota in full, provided that no increase in quota shall become effective before the date of the Fund's determination that members having not less than 70 percent of the total of quotas on February 28, 1983 have consented to the increases in their quotas.

3. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before 6:00 p.m., Washington time, November 30, 1983, provided that the Executive Board may extend this period as it may determine.

4. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund or its consent, or (b) the date of the Fund's determination under paragraph 2 above.

5. Each member shall pay twenty-five percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.

Annex: Proposed quotas in the fund under the eighth general review

(Million SDR's)

Afghanistan	86.7	Ireland	343.4
Algeria	623.1	Israel	446.6
Antiqua and Barbuda	5.0	Italy	2,909.1
Argentina	1,113.0	Ivory Coast	165.5
Australia	1,619.2	Jamaica	145.5
Austria	775.6	Japan	4,223.3
Bahamas	66.4	Jordan	73.9
Bahrain	48.9	Kampuchea, Democratic	25.0
Bangladesh	287.5	Kenya	142.0
Barbados	34.1	Korea	462.8
Belgium	2,080.4	Kuwait	635.3
Belize	9.5	Lao People's Democratic Republic	29.3
Benin	31.3	Lebanon	78.7
Bhutan	2.5	Lesotho	15.1
Bolivia	90.7	Liberia	71.3
Brazil	1,461.3	Libya	515.7
Burma	137.0	Luxembourg	77.0
Burundi	42.7	Madagascar	66.4
Cameroon	92.7	Malawi	37.2
Canada	2,941.0	Malaysia	550.6
Cape Verde	4.5	Maldives	2.0
Central African Republic	30.4	Mali	50.8
Chad	30.6	Malta	45.1
Chile	440.5	Mauritania	33.9
China	2,390.9	Mauritius	53.6
Colombia	394.2	Mexico	1,165.5
Comoros	4.5	Morocco	306.6
Congo, People's Republic of	37.3	Nepal	37.3
Costa Rica	84.1	Netherlands	2,264.8
Cyprus	69.7	New Zealand	461.6
Denmark	711.0	Nicaragua	68.2
Djibouti	8.0	Niger	33.7
Dominica	4.0	Nigeria	849.5
Dominican Republic	112.1	Norway	699.0
Ecuador	150.7	Oman	63.1
Egypt	463.4	Pakistan	546.3
El Salvador	89.0	Panama	102.2
Equatorial Guinea	18.4	Papua New Guinea	65.9
Ethiopia	70.6	Paraquay	48.4
Fiji	36.5	Peru	330.9
Finland	574.9	Philippines	440.4
France	4,482.8	Portugal	376.6
Gabon	73.1	Qatar	114.9
Gambia, The	17.1	Romania	523.4
Germany, Federal Republic of	5,403.7	Rwanda	43.8
Ghana	204.5	St. Lucia	7.5
Greece	399.9	St. Vincent	4.0
Grenada	6.0	São Tomé and Principe	4.0
Guatemala	108.0	Saudi Arabia	3,202.4
Guinea	57.9	Senegal	85.1
Guinea-Bissau	7.5	Seychelles	3.0
Guyana	49.2	Sierra Leone	57.9
Haiti	44.1	Singapore	250.2
Honduras	67.8	Solomon Islands	5.0
Hungary	530.7	Somalia	44.2
Iceland	59.6	South Africa	915.7
India	2,207.7	Spain	1,286.0
Indonesia	1,009.7	Sri Lanka	223.1
Iran, Islamic, Republic of	1,117.4	Sudan	169.7
Iraq	504.0		

Suriname	49.3
Swaziland	24.7
Sweden	1,064.3
Syrian Arab Republic	139.1
Tanzania	107.0
Thailand	386.6
Togo	38.4
Trindad and Tobago	170.1
Tunisia	138.2
Turkey	429.1
Uganda	99.6
United Arab Emirates	385.9
United Kingdom	6,194.0
United States	17,918.3
Upper Volta	31.6
Uruguay	163.8
Vanuatu	9.0
Venezuela	1,371.5
Viet Nam	176.8
Western Samoa	6.0
Yemen, Arab Republic	43.3
Yemen, People's Democratic Republic of	77.2
Yugoslavia	613.0
Zaire	291.0
Zambia	270.3
Zimbabwe	191.0

Annex 2—Decision of the Executive Board of Directors of the IMF, February 24, 1983

Text of Decision on the GAB

Following is the text of the revised decision on the General Arrangements to Borrow and the annex showing the participants and amounts of credit arrangements under both the existing and the future GAB:

PREAMBLE

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strentghen the Fund by general arrangements under which they will stand ready to make loans to the Fund up to specified amounts under Article VII, Section 1 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section I of the Articles of Agreement.

PARAGRAPH 1. DEFINITIONS

As used in this Decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(vi) "amount of a credit arrangement" means the maximum amount expressed in special drawing rights that a participant undertakes to lend to the Fund under a credit arrangement;

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(viii) "borrowed currency" means currency transfered to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by or extended arrangement;

(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

PARAGRAPH 2. CREDIT ARRANGEMENTS

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in special drawing rights set forth in the Annex to this Decision or established in accordance with Paragraph 3(b) [See table, page 71].

PARAGRAPH 3. ADHERENCE

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of the special drawing right, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the amount of the credit arrangement of the participant with the smallest credit arrangement.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

PARAGRAPH 4. ENTRY INTO FORCE

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

PARAGRAPH 5. CHANGES IN AMOUNTS OF CREDIT ARRANGEMENTS

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

PARAGRAPH 6. INITIAL PROCEDURE

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by or extended arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by or extended arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's re-

sources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

PARAGRAPH 7. CALLS

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under stand-by or extended arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Board. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve position of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by or extended arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by or extended arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

PARAGRAPH 8. EVIDENCE OF INDEBTEDNESS

(a) The Fund shall issue to a participant, on its request, nonnegotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

PARAGRAPH 9. INTEREST

(a) The Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time

to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights. A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree; provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

(c) Interest due to a participant shall be paid, as determined by the Fund, in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

PARAGRAPH 10. USE OF BORROWED CURRENCY

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and stand-by and extended arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this Decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this Decision.

PARAGRAPH 11. REPAYMENT BY THE FUND

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under Paragraph 11(b) and (e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant in part or in full. The Fund shall have the option to make repayment under this Paragraph 11(b) in the participant's currency, or in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of borrowed currency, the Fund

shall promptly repay an equivalent amount. If the Fund is indebted to a participant as a result of transfers to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by an operational budget, the Fund shall repay at the beginning of the next quarterly period an amount equivalent to that reduction, up to the amount of the indebtedness to the participant.

(d) Repayment under Paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(e) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11 transfers under this Paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(e).

(f) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve position of the members whose currencies are to be used in repayment.

(g) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(h) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored pro tanto.

(i) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest in accordance with the provisions of Paragraph 9 if the Fund tranfers an equivalent amount in special drawing rights to the member in which the institution is established.

PARAGRAPH 12. RATES OF EXCHANGE

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(a) of the Articles, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O–2 of the Fund's Rules and Regulations.

PARAGRAPH 13. TRANSFERABILITY

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

PARAGRAPH 14. NOTICES

Notice to or by a participating member under this Decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G–1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

PARAGRAPH 15. AMENDMENT

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

PARAGRAPH 16. WITHDRAWAL OF ADHERENCE

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

PARAGRAPH 17. WITHDRAWAL FROM MEMBERSHIP

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, an Schedule J of the Articles.

PARAGRAPH 18. SUSPENSION OF EXCHANGE TRANSACTIONS AND LIQUIDATION

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

PARAGRAPH 19. PERIOD AND RENEWAL

(a) This Decision shall continue in existence for four years from its effective date. A new period of five years shall begin on the effective date of Decision No. 7337-(83/37), adopted February 24, 1983. References in Paragraph 19(b) to the period prescribed in Paragraph 19(a) shall refer to this new period and to any subsequent renewal periods that may be decided pursuant to Paragraph 19(b). When considering a renewal of this Decision for the period following the five-year period referred to in this Paragraph 19(a), the Fund and the participants shall review the functioning of this Decision, including the provisions of Paragraph 21.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

PARAGRAPH 20. INTERPRETATION

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

PARAGRAPH 21. USE OF CREDIT ARRANGEMENTS FOR NONPARTICIPANTS

(a) The Fund may make calls in accordance with Paragraphs 6 and 7 for exchange transactions requested by members that are not participants if the exchange transactions are (i) transactions in the upper credit tranches, (ii) transactions under stand-by arrangements ex-

tending beyond the first credit tranche, (iii) transactions under extended arrangements, or (iv) transactions in the first credit tranche in conjunction with a stand-by or an extended arrangement. All the provisions of this Decision relating to calls shall apply, except as otherwise provided in Paragraph 21(b).

(b) The Managing Director may initiate the procedure for making calls under Paragraph 7 in connection with requests referred to in Paragraph 21(a) if, after consultation, he considers that the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. In making proposals for calls pursuant to Paragraph 21(a) and (b), the Managing Director shall pay due regard to potential calls pursuant to other provisions of this Decision.

General arrangements to borrow: Participants and amounts of credit Arrangements

Participant	*Amount in units of participant's currency*
I Prior to the effective date of Decision No. 7337-(83/37):	
1. United States of America (US$)	2,000,000,000
2. Deutsche Bundesbank (DM)	4,000,000,000
3. United Kingdom (£)	357,142,857
4. France (F)	2,715,381,428
5. Italy (Lit)	343,750,000,000
6. Japan (Yen)	340,000,000,000
7. Canada (Can$)	216,216,000
8. Netherlands (f.)	724,000,000
9. Belgium (BF)	7,500,000,000
10. Sveriges Riksbank (SKr)	517,320,000
II From the effective date of Decision No. 7337-(83/37):	*Amount in special drawing rights*
1. United States of America	4,250,000,000
2. Deutsche Bundesbank	2,380,000,000
3. Japan	2,125,000,000
4. France	1,700,000,000
5. United Kingdom	1,700,000,000
6. Italy	1,105,000,000
7. Canada	892,500,000
8. Netherlands	850,000,000
9. Belgium	595,000,000
10. Sveriges Riksbank	382,500,000
11. Swiss National Bank [1]	1,020,000,000
Total	17,000,000,000

[1] With effect from the date on which the Swiss National Bank adheres to this Decision in accordance with Paragraph 22.

PARAGRAPH 22. PARTICIPATION OF THE SWISS NATIONAL BANK

(a) Notwithstanding any other provision of this Decision, the Swiss National Bank (hereinafter called the Bank) may become a participant by adhering to this Decision in accordance with Paragraph 3(c) and accepting, by its adherence, a credit arrangement in an amount equivalent to one thousand and twenty million special drawing rights. Upon adherence, the Bank shall be deemed to be a participating institution, and all the provisions of this Decision relating to

participating institutions shall apply in respect of the Bank, subject to, and as supplemented by, Paragraph 22(b), (c), (d), (e), and (f).

(b) Under its credit arrangement, the Bank undertakes to lend any currency, specified by the Managing Director after consultation with the Bank at the time of a call, that the Fund has determined to be a freely usable currency pursuant to Article XXX(*f*) of the Articles.

(c) In relation to the Bank, the references to the balance of payments and reserve position in Paragraph 7(b) and (d), and Paragraph 11(c), shall be understood to refer to the position of the Swiss Confederation.

(d) In relation to the Bank, the references to a participant's currency in Paragraph 9(c), Paragraph 11(a) and (b), and Paragraph 18(b) shall be understood to refer to any currency, specified by the Managing Director after consultation with the Bank at the time of payment by the Fund, that the Fund has determined to be a freely usable currency pursuant to Article XXX(*f*) of the Articles.

(e) Payment of special drawing rights to the Bank pursuant to Paragraph 9(c) and Paragraph 11 shall be made only while the Bank is a prescribed holder pursuant to Article XVII of the Articles.

(f) The Bank shall accept as binding a decision of the Fund on any question of interpretation raised in connection with this Decision which falls within the purview of Article XXIX of the Articles, to the same extent as that decision is binding on other participants.

PARAGRAPH 23. ASSOCIATED BORROWING ARRANGEMENTS

(a) A borrowing arrangement between the Fund and a member that is not a participant, or an official institution of such a member, under which the member or the official institution undertakes to make loans to the Fund for the same purposes as, and on terms comparable to, those made by participants under this Decision, may, with the concurrence of all participants, authorize the Fund to make calls on participants in accordance with Paragraphs 6 and 7 for exchange transactions with that member, or to make requests under Paragraph 11(e) in connection with an early repayment of a claim under the borrowing arrangement, or both. For the purposes of this Decision such calls or requests shall be treated as if they were calls or requests in respect of a participant.

(b) Nothing in this Decision shall preclude the Fund from entering into any other types of borrowing arrangements, including an arrangement between the Fund and a lender, involving an association with participants, that does not contain the authorizations referred to in Paragraph 23(a).

MINORITY VIEWS OF MR. HELMS

THE PURPOSE OF S. 695

Congress is asked to authorize an increase in the American commitment to the International Monetary Fund and the related General Arrangements to Borrow (GAB) totalling approximately $8.4 billion. This massive addition to the present U.S. commitment represents almost a doubling of resources the U.S. has given to the IMF and it is part of a 47% increase in the total resources available to that organization.

The IMF was set up after World War II, during a period the world had relatively primitive private capital markets, as the key international instrument of maintaining the Bretton Woods monetary system. Bretton Woods was a gold exchange standard under which the nations of the world pledged to maintain a fixed parity against the dollar and the United States pledged to maintain the dollar's value at $35 an ounce of gold.

The late 60's saw then President Lyndon Johnson attempt to finance a major growth in domestic spending and the Vietnam War via inflation. The logical result followed—the fall in the value of the dollar, domestically and internationally. When by 1971, foreign claims against the U.S. gold resulted in loss of almost half of the total U.S. gold reserves, President Richard Nixon, on August 15, 1971, suspended gold convertibility. Since then, the world has effectively operated without an international monetary order. Today, currencies float against one another except when central banks choose to align their currencies with another—usually the U.S. dollar—and maintain a bilaterally fixed exchange rate.

In other words, the initial purpose of the IMF, to maintain a system of fixed exchange rates, is no longer even attempted.

Secondly, world capital markets are extremely sophisticated and are joined by an international network of electronic information systems which allow the near instantaneous arbitraging of risks so that a debtor and a creditor can be brought together on mutually agreeable terms. In other words, the other major purpose of the IMF, the facilitation of international credit, no longer exists.

In the report of the Transition Team on International Financial Institutions to President Elect Ronald Reagan, the section on the International Monetary Fund makes these comments on the breakdown of the Bretton Woods System:

> It must be emphasized that this system could only deal with strictly short-term reversible payments deficits. A fundamental misalignment, as, for example, by an overvaluation or undervaluation of a currency (which would give continuing false relative prices and thus nonreversing trade and payments imbalances) would ultimately require recourse to one of the other methods of covering a deficit. In practice, occasional devaluations of currencies would be undertaken * * *."

A parallel rises in the statement the Administration sent to Congress as a justification for this massive increase in the commitment of U.S. resources to the IMF. This statement said that the world's current economic "problems" which will be ameliorated by an increase in the IMF quotas were caused by: (1) high inflation of the 1970's; (2) the twin oil "shocks"; (3) high interest rates; (4) the world-wide recession; and (5) "countries' failure to adjust to a rapidly changing world economic environment." But what is the actual situation today? It looks like this:

> The U.S. dollar was the linchpin of the system. The system finally broke down in 1971, when the United States floated the dollar, a devaluation having been made necessary by several years of unprecedentedly rapid inflation of the domestic monetary supply. Similar policies of inflation in other countries have made the fundamental imbalances so large and varying that attempts at maintaining fixed exchange rates with foreign exchange reserve loans have been overwhelmed. While the various central banks have made periodic forays into the foreign exchange markets to smooth out basic trends, floating exchange rates have come to be a fact of life * * *.

(1) We have almost eliminated inflation. (2) The oil shock we are now experiencing is a massive reduction in the price of oil. (3) Interest rates have fallen almost 80% in two years. (4) The recession is over. And, (5) no amount of American largess will help a nation "adjust to a rapidly changing world economic environment." Four of the five problems this bill addresses are solved or are nearly solved. The fifth is a domestic matter that nations can and must individually address. In fact, the willingness of nations such as the United States to subsidize those countries facing economic difficulties may exacerbate those difficulties by allowing governments to ignore reality for an additional period of time.

Some Unanswered Questions

Is this $8.4 billion of taxpayers money a bail-out to big banks? This question has been little addressed because of a gentlemen's agreement. It isn't "polite" to call it a bail-out. Far too little attention has been paid to this issue, in part, because its obvious political overtones and in part, because of the complexity of the issue.

First, it is axiomatic that an increase in world liquidity will mean that certain borrowers who would otherwise be unable to compete for available funds, will be able to obtain credit that they otherwise would be unable to find. In addition, with an increase in world liquidity, interest rates will be at least temporarily lower than otherwise would be the case.

In other words, many of those "non-performing" loans held by many major New York banks will, because of an increase in world liquidity, be able to be refinanced.

The IMF quota increase will mean that banks will not have to face the immediate consequences of many loans becoming formally in default. In other words, yes: this IMF package is a means of aiding banks. The problem with this form of aid is that it is obviously infla-

tionary, and those victims of inflation, the poor of the world, the middle class investor, and the holders of financial assets, will suffer because of a new bout of world inflation.

Insofar as the added IMF quota represents a real transfer of resources from the United States, then every American will also be poorer because of the wealth shipped abroad.

Another unanswered question has to do with the need for the IMF to increase its quota if the additional IMF loan resources are needed. With one of the largest hoards of gold in the world, 10 million ounces, the IMF has an unused resource worth approximately $42 billion at the present gold market prices. This sum, approximately equal to the scheduled increase in quotas, could be made available to IMF client countries by a variety of means. First the IMF could put the gold up as collateral to borrow money from private markets and then lend those funds to its client nations. Secondly, it could sell the gold and lend the proceeds to client nations. Thirdly, the IMF could lend the gold itself to client nations who could then utilize that gold as a collateral for loans in the private markets. Fourth, the gold could be restituted to the member nations in exchange for SDR's and the IMF could use the SDR's and the owners of the gold could use it as they saw fit.

I believe that many officials in the IMF bureaucracy contemplate utilizing gold reserves as collateral for IMF funds. If such a step is taken, I believe that any action by the IMF Directors to use gold to provide a massive effective increase in liquidity should be considered by Congress and I believe that the U.S. should oppose such actions unless Congress specifically approves the U.S. support of such a move. The case can be made that utilizing IMF gold as collateral in commercial markets would be far less inflationary than a simple increase in quotas or in the IMF issue of SDRs. The gold is a real asset and its existence is recognized by the market.

For this reason, loans against this asset would not be as inflationary as newly created paper credits.

The second alternative, to sell off the IMF gold on the free market would be extremely disruptive to the world monetary system. The disposal of 25 million ounces of IMF gold in the late 70's resulted in a significantly lower dollar price for gold than would otherwise be the case. This meant that the world central bank gold reserves—over 50% of world central bank reserves when valued at the market prices—changed in value radically. Thus, if the IMF dumped its gold on the market today and the price of gold dropped significantly, the value of world central bank reserves would drop and thus a real international liquidity crisis could develop. Professor Robert Mundell of Columbia University has stated that a $50 per ounce drop in the price of gold means a $50 billion reduction in the value of world bank reserves. To dump IMP gold would result in far greater reduction in world liquidity than the increase in world liquidity made by the increase in IMF resources obtained by the sale.

Thirdly, there is the possibility of loaning IMF gold to client nations. Today, the free market has established a highly sophisticated and large market for so-called gold "swaps." When a nation has difficulty in obtaining credit, it can utilize its gold holdings as collateral for low rate commercial loans. The IMF could establish a gold lending

facility which would provide a transfer of IMF gold at the New York Federal Reserve Bank to the custody of client nations who could then utilize that gold as collateral for commercial loans. Such loans are generally made at market rates for sums of 80% to 100% of the market value of gold. In other words, if the IMF fully utilized its gold in a lending facility of this type, its resources could be increased by almost as much as the quota increases provide. Conditionality, if the IMF so chose, could be imposed in exchange for the gold loans.

Because the gold would not actually go on the market unless a nation defaulted on its commercial, gold collateralized loan, there would be a negligible effect on the gold price.

There is a fourth alternative for the use of IMF gold. Since it is an idle resource today, the United States should take all appropriate actions necessary to have the IMF restitute the gold in accordance with the procedures adopted in the 1976 Bretton Woods Agreement Amendments. At that time, the IMF began to sell 25 million ounces of its gold reserves. It also "restituted" 25 million ounces of gold to member countries at the IMF official price of 35 SDRs, approximately $40 an ounce. Since the IMF has officially "demonetized" gold and since the increase of its resources is to be in paper—quota increases or SDR issuances—then its remaining gold reserves should be returned to the nations that donated those reserves. The United States could then decide what to do with its portion of that resource. Other nations could do the same with their returned gold quota, and the IMF would have added SDRs from the gold restitution for us as it saw fit.

The Case for a Stabilized World Monetary System

The above discussion on the uses of the IMF gold contemplates continued dependence of the world's central bankers on the exchange of paper assets. The continued, predictable increases in world liquidity has enabled nations to run regular balance of payments imbalances, and has meant that more resources will be needed in the future to continue to finance these imbalances. Although the IMF's actions are aimed, it is said, at curing the problem, they provide the chief means of continuing it.

It is a truism that the sum of the world's balance of payments deficits must be equal to the sum of the world's balance of payments surpluses, when there is a stable supply of money in the world.

In fact, we see today many nations with great deficits and few nations with significant surpluses. The difference is made up with the creation of new liquidity, and the IMF is a major source of this financing. With the added surge of funds provided by quota increases contemplated by the bill before us, the world will surely see more financing of balance of payments deficits and another bout of inflationary pressures.

How different the situation was under the Bretton Woods system. Since the supply of dollars was tied to the price of gold and central banks in the world were pledged to maintain parity with the dollar, there was a relatively stable supply of world liquidity and little inflation in the world. Though the system had many faults—its loopholes led to its destruction—it did give us approximately a generation of

relative price stability. Compared to the present chaos, it was great. Though there were disruptions, some dislocations and a good deal of observance-in-the-breach, the Bretton Woods system imposed costs on the real world economy equal to a small fraction of the costs imposed by the current disorder.

Why, we must ask, does the world not move to a new, stabilized order typified by fixed exchange rates that would boost trade and provide the kind of discipline that the IMF supporters contend that we obtain when providing massive loans with some "conditionality?" When a nation's currency was under attack, it had little choice but to change the monetary policies that resulted in the decline in the value of that currency. The IMF served to act as a short-term lender, a role that could now be assumed by the commercial credit markets.

The reasons are several but none of them particularly valid.

First, there is a belief that all currencies would "float" against one another so that inflation in one nation would not be imported to the next. This is a nice-sounding ideal, but in practice it has meant that all nations inflate freely, currency values are unpredictable, protectionism is stimulated and trade stifled. I would not advocate a system in which the United States would be forced to inflate to accommodate the irrationalities of French economics or to accommodate any other central bank that adopted inflationary policies. But, it is foolish for the United States to give lip service to today's system, one that doesn't work. Federal Reserve Board Governor Henry Wallich, who was involved at the founding of the present "floating" system, has said that he and his colleagues simply had no idea that the system that evolved would be as damaging and instable as it has turned out to be.

Secondly, there is the aspect of political power. The advocates of the IMF say that only through IMF "conditionality"—imposing certain policy requirements on recipient nations—can they get countries to change foolish policies and monetary practices. Another, more cynical economist said, "Nations would rather give up the power to wage war than to give up the power to inflate." This is true, unfortunately of American politicians as it is of their most monetarily irresponsible South American brothers. To pledge to conform to a stable world monetary order is to pledge to give up the power to debase the currency. Though the British sovereign gave up the power after the Glorious Revolution, in the 17th century, more recent sovereigns have again usurped that power and have used it often. For the world to have to stable monetary system, the United States would have to have one.

For the United States to adopt a sound currency around which a stable international monetary order could be built, the present monetary system would have to be reformed. A monetary system can not exhibit violently fluctuating interest rates or the near total lack of predictability in monetary policy and provide the cornerstone of a system of fixed exchange rates.

Thirdly, there is as much if not more intellectual disagreement about the possibly or desirability of a monetary system based on a commodity—a gold standard—than ever in history. In recent years, the advocates of classical economics have had many new supporters join their ranks. The international monetary disorder has stimulated studies that have shown that what is needed is a "price rule," a system

which has as its central policy goal, the stability of the price, or value of the unit of exchange. In the past this has meant fixing the unit in terms of gold. Today, satisfactory alternatives have not been found. As Robert Mundell puts it, talking about commodities or "price rule" other than gold is foolish. Since central banks have the bulk of their reserves in gold, the "name of the game is 'gold'."

Even though there remains a strong commitment to "discretion"—the rule of man in money—both the monetarists and the classical economists are joined in opposing the IMF as presently constituted.

The Economist's Critique

As cited above, those economists who identify themselves as monetarists would disagree with me about the need for an increased role of gold in the international monetary system. Nevertheless, their critique of the International Monetary Fund and of the proposed increase in quotas is strong.

In a statement prepared by the Ad Hoc Committee on International Debt and U.S. Financial Policies on January 14, 1983, the noted economists Karl Brunner, Michele Fratianni, Morris Goldman, Jerry Jordon (former member of the Council of Economic Advisors), Allan H. Meltzer (Chairman of the Shad Open Market Committee) and Anna J. Schwartz (former staff director of the United States Gold Commission) stated in part:

> A sense of emergency has gripped policymaking in Washington and Europe. Complex negotiations are under way to prevent defaults: to ward off the insolvency of creditors, and to exorcise the threat of financial collapse. Central banks have provided new credits and regulators have assured banks that they would disregard the low quality of de facto defaulted claims. Commercial banks have been urged and even prodded to extend additional credit to finance overdue interest payments. Perhaps most indicative of the current mood are the moves to enlarge the borrowing facilities of the IMF and related international institutions. The magnitude of the planned expansion of the IMF's facilities has been repeatedly raised over the past twelve months, particularly by the U.S. government.
>
> There is little evidence and almost no assurance that the series of piecemeal improvisations will provide a solution to the international debt problem. A policy dominated or publicly justified by panicky fears of a "debt bomb" or a deflationary collapse will most likely produce serious new problems in the future. The improvisations may obscure de facto defaults on actually prevailing moratoria, preventing deflation, but risking a drift into a new round of worldwide inflation or the wasteful use of potentially productive resources in various forms of a bailout.

The economists, in their statement, rightly outlined the proper perameters of a solution, saying that there should be:

> *No deflation:* There is no reason to let the world or the creditor nations slide into a deflation and deep depression. A

financial collapse or a major collapse in the financial industry should be, and can be, avoided.

No inflation: Simalirly, there is no justification for recourse to inflationary policies to alleviate the debtor nations' real debt burden or to "provide additional liquidity" to debtors and creditor banks. Inflationary policies "solve" the debt problem by shifting the losses associated with the current state of international debt to the ultimate creditors, i.e., the holders of money and other nominal liabilities issued by banks and governments. This "solution" would reinforce the tendencies toward permanent inflation and impose high social costs.

In addition, they thoughtfully analyzed the concept of a bail-out saying:

No bailouts: There should be neither bailouts of debtor nations nor of creditor banks. The losses experienced or expected by the banks should be borne by their management and shareholders. Each case of potential default should be judged separately to determine the relative permanence of the underlying conditions. Additional loans cannot solve the *permanent* underlying problem of countries that have borrowed to maintain consumption above their prospective income; additional loans can assist countries faced with *transitory* adjustment difficulties. Poland and Brazil exemplify the two alternative cases. The probability that citizens of creditor nations will pay a tribute to the debtor nation under the guise of additional loans is comparatively small when loans are made to adjust to a transitory problem. The failure of the creditor nations to cope with de facto permanent default encourages the taxing of citizens in the creditor nations and imposing on them a corresponding loss of wealth. The loss could be contained if the permanence of the problem would be recognized *now* and acknowledged by policymakers, regulators, and banks.

The provision of additional loans without discrimination between permanent and transitory problems of debtors fosters incentives among debtor nations to continue policies that contribute to the current problem. Under the circumstances they find it useful to raise their demand for loans, to reject requests for domestic adjustments, or renege on implementing the policies that are agreed to when loans are extended.

The long-run consequences of negative incentives produced by pieceméal improvisations seriously affect the productive use of our resources. A persistent stream of bailout funding directs portions of our savings away from the most productive use. The savings absorbed in bailouts most probably will be used by debtor nations to maintain consumption in excess of their expected income or to protect a large political apparatus that makes little contribution to real economic growth.

Concerning the specific role of the International Monetary Fund, the Ad Hoc Committee has an important suggestion to make:

> Monitoring and assessment of domestic policies of *both* debtor *and* creditor nations form a crucial element in our program. The IMF seems the only institution equipped to perform this duty. However this task requires a reexamination of the IMF's usual "austerity programs" that encourage countries to reduce imports. Concurrent reductions of imports by several debtor nations shifts the burden of adjustment onto other countries. Financial policies and the creation of incentives to produce and export should be the major targets of the IMF.

Although the Committee does not specifically oppose the quota increase, they state that, "the institutional interests of its bureaucracy contribute to the likelihood of massive expansion of lending facilities with a disposition for bail out under one guise or another. The only justification for loans is to assist countries to solve a temporary problem. Temporary problems do not require a permanent increase in the IMF quota."

In a recent program sponsored by the Manhattan Institute for Public Policy Research, Professors Melvin Krauss (author of the book published by McGraw-Hill entitled, *Development Without Aid*) and John Eatwell discussed the International Monetary Fund and the bank situation.

Krauss was asked if the IMF actually stopped aiding countries like Mexico, what would be the repercussions? Krauss stated:

> I think that if the IMF refused to help these countries certain banks would suffer. They ought to suffer the consequences for having made foolish loans, and perhaps they will cease to do so in the future. They're not doing the Third World any good with loans that facilitate inappropriate investment policies. People who worship the status quo believe we must continue to make bad loans and bail out the banks who make them. I don't think people interested in promoting world prosperity should worship the status quo.
>
> Incidentally, I don't mean to cast aspersions on banks in general, or on any bank in particular. Nor do I favor toppling the world financial order. My point is simply that as long as governments implicitly or explicitly guarantee loans, the same mistakes will continue to occur.

Further, Professor Eatwell and Professor Krauss engaged in a dialogue concerning the IMF's imposition of austerity and it started a program on Mexico—a program which many people think will exacerbate Mexico's problems and result in a greater influx of illegal aliens from south of the border.

Eatwell stated:

> The only alternative for inducing growth without upsetting the balance of payments or causing an explosive inflation was, we argued, protection. Yet Mexico actually, and unfortunately, did just the opposite. Hoping they could ride out the wave on oil money, they expanded rapidly and at

> the same time dismantled the protective apparatus. The consequent disaster is what we see today. Now, unfortunately, we've had the imposition of the IMF agreement. The consequences of the IMF agreement will be negative growth for the Mexican economy next year, and probably zero growth for the Mexican economy next year, and probably zero or very low growth for the next few years. The manufacturing base will deteriorate, as will the markets for American goods.

Professor Krauss responded:

> I, too. am distressed by the terms of the IMF loan to Mexico. Mexico's problems will not be solved by deflation of the type apparently requested by the IMF. I think that reducing public expenditures and budget deficits is a good idea, but not by increasing taxes. That will only cause the economy to stagnate.

Even before the Bretton Woods system collapsed, the great British economist, Harry Johnson, wrote in a book published by the Brookings Institute, entitled, *Economic Policy Toward Less Developed Countries;* an accurate analysis of the inflationary potential of the IMF idea of an expanded role fort he IMF as central banker of the world and creator of international credit money such as Special Drawing Rights. Johnson said:

> The notion that the creation of money entails someone getting something for nothing is only too readily grasped; consequently the growing recognition of the need for reform of the present international monetary system has evoked a host of proposals designed to capture that "something for nothing" as additional development assistance for the less developed countries.

In his book entitled, *Development Without Aid*, Krauss discusses the Brandt Commission Report on the international economic system which goes farther than most in advocating massive wealth redistribution schemes, including that allocation of new SDRs based on alleged need. This would be a so-called "SDR link":

> There are several reasons why the SDR-link proposal backed by the Brandt Commission and others is a bad idea. Most important is that the SDR-link proposal is inflationary. There is both a "monetarist" and an "incentives" reason to support this argument. The monetarist reason is that the creation of additional reserves, i.e., increasing the world's stock of money, without an accompanying creation of world output must increase would prices of goods and services. The incentives reason is that LDCs with stable macroeconomic policies and no serious balance-of-payments problems would not receive development aid from the IMF in the form of SDRs under the link proposal. But LDCs with unstable policies would. The link proopsal, therefore, gives all Third World countries the incentive to follow excessive inflationary policies, since such policies would serve to increase development aid. By rewarding reckless policies, the link proposal serves to encourage them.

Krauss also discusses the need for IMF funding saying:

> The bottom line of these criticisms of private capital markets, of course, is that several Third World countries have lost access to them because of irresponsible domestic policies. Walter Hoadley, former chief economist of the Bank of America, writes that: "The record is clear that when the developing nations offer a continuing economic, social and political environment supportive of profitable private investments, there is global recognition of this fact and a responsive inflow of finances and development skills to assist the economically feasible projects."
>
> Thus, rather than counsel the LDCs to discontinue their irresponsible policies so that private funds would be forthcoming at modest rates, the Brandt Commission has put its weight on the side of continued economic and political irresponsibility by advising the LDCs to abandon private capital markets. Given that the Commission is against IMF discipline of deficit Third World countries, the essential Brandt message is an extraordinarily inflationary one: let the LDCs inflate and have the surplus countries also inflate to provide world balance-of-payments equilibrium.

In a paper presented to a recent conference sponsored by the Committee for Monetary Research and Education, Dr. Agustin Navarro G. presented a paper on the Mexican financial situation entitled, "Don't Bother Me—I'm Having A Crisis". His comments concerning the IMF are illustrative since it appears that Mexico will be one of the major clients for the expanded IMF resources. His paper tells us how the added billions of dollars of U.S. resources may be spent by his agency:

> Now, let's give a quick glance at IMF's current advice for economic recovery in the debtor countries. For instance, the IMF has designed a program in which the Mexican Government has been asked to slash its budget deficit from an actual level of 16.5% of its total economic output to 8.5% in 1983 and 3.5% by 1985. Also, it must reduce spending on major programs, decrease subsidies to private businesses, freeze government hiring and wage increases, raise taxes, confine itself to tight credit policies and increase fees and prices on goods produced by government companies. Looks good and looks technical, but instead of bringing down the hidden tax of inflation, unfortunately, the government is confined actually in raising taxes and reducing the real income of the people, imposing taxes on investment, aggregate value taxes, duty taxes, taxes, taxes * * *.
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> How can you inflict that sort of punishment and lower even more the living standards in a nation with a per capita share in the GNP of around $1,000 per year and where more than 700,000 people will surely become unemployed this year, without causing social and political disruption?
>
> Let me take another minute in order to give you some illustrating figures: from Mexico's population of around 70 million persons—46 million are under 18 years of age, plus 2 million which are not classified, that takes us to a non-produc-

tive population of 48 million. Of the 22 million left, 10 million are employed part-time and only 12 million are fully economically productive. For income tax purposes, from this 12 million, we need to subtract 3 million who are paid minimum wage and therefore are exempt from income tax.

Now we know who, and how many will directly pay the raises in taxes and the price increases in public fees. I believe that the IMF's drastic recommendations are derived from the "politicization of economic decisions" and the circumvention of basic economic principles. Just to cite a few examples:

1. There are no strict considerations nor careful monitoring given to the monetary policies of the recipient governments.

2. Nothing has been enforced to rebuild the private sectors of these economies, especially in Mexico where this sector is completely handcuffed with exchange and price controls, import licenses, excessive duties and is experiencing one of the highest progressive corporate taxes in the world.

3. The "austerity" is unfairly circumscribed to a very limited economic sector (we must remember that the government controls 76% of the whole Mexican economic activity). All major businesses in Mexico are in a "state of bankruptcy" due to liquidity problems, exchange controls and an inflation rate which is completely rampant. Not you, not me, nor the IMF, or the U.S. banks can realistically expect any recovery from the Mexican private business sector in face of the prevailing conditions.

4. One more question that everyone should be asking at this point: In the Mexican case, the government's share (65%) of the 60 billion that was lent to this country since 1976 by foreign financial institutions and the estimated $80 billion from oil revenues, in the same length of time, those $140 billion are the clearest evidence of the inefficiency and corruption that had to be involved in order to spend and mismanage that amount of money. And, there is no doubt that this will continue if the actual credit policies remain unchanged and if the maintenance of the necessary conditions for sound economic growth is not strongly demanded.

We can easily see now, that it is not only a matter of money or credit. What is really needed is a basic change in political and economic philosophy, which is still absent in the minds of our politicians, economists and bankers.

In other words, Dr. Navarro is showing us that the IMF in this case is simultaneously forcing the program of austerity on a country that can ill-afford it, while subsidizing the continuation of economic policies that will lead to less growth, more stagnation and greater absorption of world credit resources. Navarro had no easy answers, but had a thought-provoking proposal which deserves consideration and deserves adoption. He stated:

A. From a macro-financial standpoint, the whole International Monetary System needs to be reformed in order to bring essential stability to the exchange rates, and once and

for all give serious and urgent consideration to the Gold Standard which with only minor side effects has proven to be the only effective antidote to mankind's greatest poison and addiction: inflation.

So let's get away from the Bretton Wood's haunted house and Lord Keynes' old fashioned ghost.

B. From an Economical standpoint, it is imperative to rebuild the private sector in most of these indebted countries. This is the only alternative to getting repaid someday. How can we accomplish this? The basic package to revitalize the private sector is: free market economics, privatization and deregulation.

We must end the fiction which is best described in a popular Latin American saying: "No more realities, give me promises." This philosophy cannot stand forever, as Le Bon pointed out when he said, "Latin Nations quickly grow more tired from Liberty than of Servitude."

Professor Roland Vaubel of the Institute on World Economics in Kiel, West Germany, presented a paper at a conference sponsored by the Philadelphia Society and the Heritage Foundation here in Washington on March 3, 1983. The Conference entitled, "The Future of International Monetary Fund, World Bank and International Lending" was highlighted by a number of thoughtful critiques of the various international lending institutions and in particular the International Monetary Fund. In Vaubel's paper entitled, "The Moral Hazard of IMF Lending," he quoted Wilson Schmidt concerning international lending. I knew and respected Professor Schmidt who was to have been the United States Director at the World Bank, but died before his confirmation. Schmidt chaired a high level agency review of international lending facilities before his death and I believe his efforts were responsible for the initial hesitancy of this Administration to support such a massive IMF bail out. Schmidt stated:

> In principle, countries always have the ability to pay debt service . . . If the creditor adopts a policy of offering new aid whenever a debtor threatens to default, debtors are likely to increase their threats of default in order to gain more assistance.

Vaubel's paper details however the extent to which IMF debtors have expanded their claims against the international agency and indirectly against the Dodnor nations such as the United States. Vaubel first points out that the massive increase in credit is difficult to justify:

> On January 18, 1983, the Ministers and Governors of the Group of Ten and Switzerland decided to increase the aggregate credit commitments under the General Arrangements to Borrow (GAB) from SDR 6.4 billion to SDR 17.0 billion, i.e., by about 166 per cent. They agreed that in the future the GAB would also be available for conditional financing by the IMF when "the Fund was faced with an inadequacy of resources arising from an exceptional situation associated with requests from countries with balance of payments problems of a character or of aggregate size that could pose a threat to

the stability of the international monetary system". Finally, since last summer the Bank for International Settlements (BIS) has provided special "bridging loans" for Hungary, Mexico, Brazil, Argentina and Yugoslavia. Venezuela is expected to be the next applicant.

Are these startling increases in official international lending (or "liquidity") necesary? Are they dangerous?

When the par-value system of Bretton Woods finally collapsed in 1973, many observers expected the demise of the IMF, at least of its lending operations. In fact, as can be seen from Table 1, international liquidity made available by the IMF more than doubled from 1970 to 1975 *in real terms* (using the U.S. GDP deflator); from 1975 to 1982, it increased by another 58 per cent (in real terms). Even relative to world exports, IMF international liquidity was 35 per cent larger in 1982 than in 1970, and four and a half times larger than in 1960. Is this an instance of Parkinson's Law? Is the IMF growing though the need for its lending is diminishing, just as the British Admiralty augmented its administrative personnel by more than three quarters from 1914 to 1928, though the number of large combat ships diminished from 62 to 20 and total crew personnel declined by almost a third?

Faced with the threat of decline in 1973, the IMF grasped the opportunity provided by the two oil price shocks. At first it was mainly low-conditionality lending which expanded, but by about 1981 higher-conditionality lending had reattained its 1970 share. While the subsidisation of SDR use was gradually reduced by raising its interest rate toward market levels, those countries which were most likely to request assistance from the Fund, i.e., the developing countries, could increasingly obtain subsidies from the newly created Oil Facility Subsidy Account, Supplementary Financing Facility Subsidy Account and the Trust Fund.

Loans in the credit tranches and under the compensatory financing and buffer stock financing facilities are also available at periodic rates of charge that are concessionary when compared with market rates of interest.[1] Standby credits beyond 200 per cent of quota and extended facility credits beyond 140 per cent of quota can be obtained at periodic changes that are linked to the yield on certain U.S. government securities.[2] For SDR drawings a weighted average of treasury bill rates applies. For the typical IMF borrower these "market" rates of interest include a subsidy because they do not allow for the fact that he represents a higher risk.[3] The Fund has also terminated its practice of raising its periodic charges with the relative size of the loan.[4]

At first glance, the increase in IMF international liquidity and in subsidized lending to marginal borrowers which points toward leniency may seem to contradict the growing emphasis

[1] Gold (1979, p. 9); IMF Annual Report, 1982, p. 117.
[2] Gold (1979, p. 26).
[3] According to Gold (1979, p. 10), "the Fund has no power to levy different charges for the use of its resources under the same policy".
[4] Gold (1979, p. 10).

on stringent conditionality. However, the economic theory of bureaucracy would predict precisely this: a bureaucracy which wants to maximize its budget and its staff will always demand more money, more decision-making power and more subsidies for its product.[5]

With the advent of widespread floating, the Fund's justification of its own lending operations has shifted from the goal of exchange-rate maintenance to that of "facilitating balance of payments adjustment" and, most recently, to the prevention of debt crises and bank failures. This is where the interests of the Fund [6] and of bankers meet. The politician faces an alliance of official and private "experts" who all tell him that more IMF international liquidity is needed. Not surprisingly, the potential borrowers in the less developed part of our world do not object to this view, and UNCTAD, the Brandt Commission and the other advocates of the less developed countries push it on every occasion. Is a debt crisis imminent?

Vaubel goes on to point out that:

> The external debt of the non-OPEC developing countries (excluding borrowing from the IMF) has been growing fairly steadily in real terms (using the U.S. GOP deflator). The compound average rate of change has been about 11 percent per annum, with a somewhat slower rate since 1979 but an estimated acceleration in 1982.

He then illustrates that:

> Debt to the capital market and notably to banks has been growing faster than total debt in almost every year, and that its real rate of growth has accelerated in 1982. In that year, new international bond issues by the non-OPEC developing countries have been large by historical standards, but not relative to the size of the market. New gross Eurocurrency credits to non-OPEC developing countries have declined somewhat, but not relative to total Eurocurrency credits. The only significant change is reported by the Bank for International Settlements: in the first three quarters of 1982 the change in external claims of Eurobanks on non-OPEC developing countries at constant exchange rates has been only half as large as in 1979–81, but with the exception of the third quarter it has still been positive.
>
> Apart from the size of external debt, or its rate of growth, various other indicators have been used to predict a debt crisis, notably debt/GNP ratios and debt service/export ratios. The relevance of these indicators is quite doubtful. Does an increase in any of these ratios signal that debt servicing has become more difficult, or, on the contrary, that the borrower is considered increasingly creditworthy by the lenders? The ultimate criterion of whether debt servicing has become more difficult or not is whether the borrower's rate of

[5] Gold (1979, p. 10) states quite frankly that "the necessity to levy charges that meet the cost of borrowing (under the temporary Fund policies) is one reason why the Fund prefers quotas and subscriptions that are adequate to satisfy the needs of members".

[6] Gold (1979, p. 10) states quite frankly that "the necessity to levy charges that meet the cost of borrowing (under the temporary Fund policies) is one reason why the Fund prefers quotas and subscriptions that are adequate to satisfy the needs of members".

return exceeds the interest he has to pay. The answer to this question cannot be gained from inspection of some macroeconomic aggregates or relatives. It depends on the use of the funds.

Another method is to proceed by extrapolation. In the 1970s, external public debt had to be rescheduled in one to four cases each year. In 1981 and 1982, this number rose to 11 and 18, respectively (excluding Poland which is not a member of the IMF). If Wilson Schmidt was right that "countries always have the ability to pay debt service," either by raising taxes or by selling public property, these reschedulings indicate a liquidity problem but not a solvency problem.[7] It would also follow that they indicate an unwillingness, but not inability to repay.[8]

To reschedule is to invite-demands for further rescheduling. This is the second point Wilson Schmidt was making. The argument can be extended. If the IMF steps in and extends subsidized loans to member countries that threaten to default (incidentally, few of them low-income developing countries), it encourages both further threats of default and further bank lending to borrowers which have proved to be not creditworthy. Like any no-fault insurance, the Fund is bound to generate an avoidable moral hazard. Since debt service obligations are not enforced for international public debt, the temptation to default or to threaten default is much larger for international public debtors than for domestic private debtors. Since the foreign creditors of governments will be correspondingly more impressed by such threats, it is all the more important that third parties, like the IMF, do not aggravate the moral hazard by rewarding demands for rescheduling.

Vaubel then points out that of the 21 member IMF countries that rescheduled their debts during the 1980–82 period, eighteen of them received new IMF credits under stand-by or extended arrangements. If we take a larger or longer period, we find that from 1960 to 1982, thirty of the (on the average) 114 members accounted for all cases of debt rescheduling. In fact, fourteen countries accounted for more than 80 percent of the annual instances for which debt was rescheduled. Vaubel states:

If debt rescheduling were necessitated by random accidents, such an outcome would be extremely improbable.[9] However, the outcome is consistent with Wilson Schmidt's hypothesis that rescheduling begets further rescheduling for the same debtors.

Even without rescheduling the prospect of cheap IMF lending is likely to generate moral hazard by reducing the incentive not to become needy; for it pays to pass the international

[7] For the view that "few of the developing country debt crises have involved solvency crises" see also Aliber (1980, p. 13).

[8] If this conclusion is not accepted, the following consideration applies: "Persistent inability to service external debt implies that the capital has been used wastefully, as otherwise incomes in the recipient countries * * * increased by more than the cost of capital * * *. And this inability * * * Bauer, 1974.

[9] The significance level could be determined with a Chi-Square test for the equality of multinomial distributions.

means test regardless of whether the assistance is conditional or not.[10]

Vaubel cites statistics which reveal that Vaubel continues to illustrate six reasons which are used to justify the IMF and discusses them with an eloquence not often seen in this arium. He titles this discussion, "Why IMF Lending?"

1. THE EXCHANGE-RATE ARGUMENT

Under the exchange rate system of Bretton Woods, IMF lending was supposed to be necessary to maintain par values through foreign exchange interventions. However, this argument did not remain unchallenged. It was pointed out that, even under a fixed exchange rate system, "the need for employing foreign-exchange reserves . . . may be reduced almost to zero if the central bank conducts its monetary policy with (sufficient) flexibility . . ." (Egon Sohmen, 1969, p. 219). After all, (non-sterilized) foreign exchange interventions are not the only instrument of monetary policy that can be used to attain exchange rate targets. Indeed, in comparison with open market operations, they have the important disadvantage of interfering with the money supply policies of at least one foreign central bank. Since currency depreciation can always be avoided through a sufficiently restrictive (usually disinflationary) monetary policy, exchange crises are, from a technical point of view, always the fault of the country's monetary authorities. To extend subsidized loans to such monetary authorities for the purpose of exchange rate maintenance is both unnecessary and harmful because it creates severe moral hazard.

Those who do not consider the exchange-rate argument invalid at least are forced to conclude that the transition to widespread floating has reduced the need for IMF lending. As the London Economist wrote in 1976 (under the headline "Do we need an IMF?"), "the IMF did its best to resist the change to floating. Now that it has had to be accepted, why is the IMF still bent on credit creation?" (Jan. 17, 1976, p. 82). To repeat, the most dramatic increase in IMF international liquidity creation occurred in the 1970s (Table 1).

2. THE GRADUAL ADJUSTMENT ARGUMENT

According to the Fund, "its concern should be with both the financing of temporary payments imbalances and the adjustment of unsustainable ones . . . in the medium term" (Annual Report, 1982, p. 73).

It suggests, therefore, that "the global demand for reserves may be expected to grow in some relationship—not necessarily a proportional one—to world trade and to countries' payments imbalances" (Annual Report, 1982, p. 71).

The underlying assumptions are that

> "payments imbalances" are often the result of real disturbances in the goods market which are not caused by

[10] In contrast, Williamson (1980, p. 274) claims that "The Fund's conditions no doubt should be, and are, tough enough to avoid the problem of moral hazard".

the economic policies of the borrowing government, and that

gradual adjustment to such real disturbances is often more efficient than shock treatment.

Both assumptions will be accepted for the sake of argument.[11] However, there remain two crucial questions.

In the first place, it is not possible to use the size of current account deficits as a yardstick of the need for international liquidity. As has been mentioned, large net capital imports should signal a high marginal productivity of capital and, consequently, a high degree of creditworthiness for the recipient country. Whether a current account deficit is sustainable or not cannot be determined by looking at its absolute or relative size. Since current account deficits depend on the extent of IMF lending, they are not even exogenous to what they are supposed to determine. If the Fund's criterion were accepted, the IMF could demonstrate an increased demand for international liquidity by increasing its supply of subsidized loans. IMF lending cannot be the cause of a need for it.

Second and more important, the question has to be asked why countries that have been hit by unfavorable real disturbances should not finance temporary deficits or spread real adjustment by borrowing in the international capital market. As Sohmen has pointed out, "a country can thus gain access to voluntarily supplied private funds without any need for 'international liquidity' . . . One major advantage of (this method) is that every country . . . would borrow funds at the opportunity cost of lending in the rest of the world . . ." (1969, p. 221).

Another advantage would be that such borrowing, unlike borrowing from the IMF, would not entail money creation in the capital exporting country.

The Brandt Commission (1980, pp. 212 f.) rejects the view that the market can play a key role in financing deficits. It gives four reasons:

private financing "is very imperfectly subject to international monitoring let alone control, and is easily affected by crises of confidence";

"it is not easily accessible to the poorer developing countries";

"it tends, because of its terms, to exacerbate the problem of servicing and refinancing debt";

"there are growing doubts as to the continuing availability of adequate private bank financing in the future".

Similarly, Fred Bergsten (1981, p. 29) asserts that "we cannot rely exclusively on private markets. Some borrowers will

[11] However, even leading Fund Officials admit that "the issue, usually referred to as the choice between a 'shock' versus a 'gradual' approach to the adjustment process has not been conclusively resolved . . . because it is not at all obvious that a gradual adjustment is preferable to a rapid one in all circumstances" (Gold, 1979, p. 39). John Williamson believes that "the Fund has (at least up to now) been overdisposed toward shock treatment" (1980, p. 274). This is also the view of the Brandt Commission (1980, p. 216). By contrast, the Group of Thirty regrets that "the oil facility had even slowed down adjustment in the sense that it made money too easily available" (1981, p. 39).

As for the first assumption, Dell (1981, pp. 19, 33) has suggested that the availability of IMF loans should depend on whether the member * * *.

face serious constraints on their access to private markets, and we must assure that official financing is available in adequate amounts to support required adjustment programs and maintain financial stability while adjustment is taking place."

Finally, Robert Heller (1980, p. 268) proposes a division of labor between the Fund and private lenders: "The important distinction between the banks and the IMF is that while countries are likely to rely on commercial bank financing on a continuing basis, their use for IMF resources is likely to be temporary."

The objections advanced by the Brandt Commission are inconsistent with Williamson's middle-of-the-profession assumption that, as a rule, "the least-cost way of satisfying a budget constraint is to let the market decide how it is to be done". For the Brandt Commission, the market is inherently inferior to government action; it is unstable and in need of control by governments. Both the Brandt Commission and Bergsten start from a self-defined target for international lending to developing countries, the target being: much more than now. They reject the market solution because they do not expect it to yield their predetermined preferred result. They are unwilling to use the market as a search process. They are unwilling to let individuals decide. No welfare-theoretic reason is given for the assumption of market failure or for a division of labor between markets and governments in this field.

3. THE INSURANCE ARGUMENT

According to Williamson, the Fund "provides insurance against a class of risks which would not seem well suited to a private market" (1980, p. 273).

According to Cline (1982, p. 144), international risk sharing should be extended to increases in debt servicing needs that are caused by interest rate fluctuations.

A special case of the insurance argument is the widespread view that the IMF acts as a *lender of last resort* and is needed to prevent the international banking system from collapsing.[12]

There is no reason for a country to go to the IMF if it can borrow on equal or better terms in the market. Thus, in order to be able to lend, the IMF has to subsidize its loans.[13] In the extreme case, the Fund lends to countries which the market does not consider creditworthy. It insures member governments against the market's judgement.

One way of trying to justify such a system is to consider the subsidy part of IMF loans as the only relevant insurance benefit. However, in an insurance. contributions would differ according to risk. As Table 3 has shown, the frequency of borrowing (standby and extended) differs considerably among IMF member countries. IMF lending is not an actuarily fair insurance. It is biased in favor of the main borrowers (mostly

[12] See, for example, Neu (1979, p. 242); Gold (1979, p. 38); Group of Thirty (1982a, p. 42; 1982b. pp. 26 f.).

[13] This is not denied by Williamson (1980, p. 273).

developing countries). It provides a net subsidy to them. This net subsidy is a form of program aid. Would the recipients of the net subsidy also chose to insure with the IMF if they could use this aid as they liked (or for any of a number of different programs approved by the donor countries)? Does IMF lending create a needless distortion of the recipients' preferences?

The IMF is not a lender of last resort. Very often, countries lend from the Fund without having exhausted their borrowing capacity in the international capital market. To the extent that the Fund offers subsidized loans, one should expect that it acts as a lender of first resort.[14]

Does the world need a lender of last resort to prevent the international banking system from collapsing? Peter Kenen, an advocate of debt rescheduling, has argued that "defaults by developing countries, even if widespread, would not seriously threaten the stability of the international financial system, loose talk to that effect not withstanding. Some banks and other private lenders would be hurt. A few might be wounded mortally. But there is little justification for the fear that defaults could wreck the Eurocurrency market or would do grave damage to national financial systems" (1977, p. 54).

The Group of Thirty (1982a, p. 42) reports the results of an opinion poll among 111 international bankers: 56 percent disagreed with the view that "there is a need for a supranational organisation (e.g., IMF, BIS or a new institution) to assume the role of lender of last resort for the international banking system". Only 39 percent agreed. The reason is that the national monetary authorities are expected to act as lenders of last resort for the commercial banks in their jurisdiction and for the latters' foreign affiliates.

There is a widespread fear that the Great Depression could repeat itself, and that bank failures would be the trigger. However, bank failures do not lead to depression if the monetary authorities prevent the money supply from being affected. To prevent a depression it is not necessary to prevent default by augmenting the IMF's lending potential. What is necessary is an announcement by the national monetary authorities that, in case of bank failures, the monetary base will be increased (say, through open market operations) so as to stabilize monetary expansion. The Fed's failure to maintain the U.S. money supply in the face of a banking crisis was the cause of the Great Depression.[15]

4. THE EXTERNALITY ARGUMENT

It is sometimes argued that subsidized credits for balance of payments financing, or specifically for debt service financing, are needed to prevent the recipient countries from adopting protectionist measures, restrictions of convertibility, or other beggar-thy-neighbor policies. According to a Keynesian variant of this argument, IMF lending is also a welcome

[14] This is also the view of Neu (1979, p. 246).
[15] See the classic by Friedman, Schwartz (1963, Ch. 7).

instrument of maintaining the developing countries' demand for imports from the industrialized countries. The general idea is that the recipient countries must be bribed so that they do not impose negative externalities on the donor countries.

An institution that tries to buy international "social peace" by giving in to blackmail on a permanent basis behaves in a myopic way because it encourages further threats and ultimately aggravates international discord. Strategic behavior requires resistence to repetitive blackmail—the more so as restrictions of international transactions would harm the threatening countries as well. That the level of aggregate demand in the donor countries can be raised by spending public money [16] abroad rather than at home cannot even be shown in a Keynesian framework as long as the domestic sector of the donor countries suffers from excess capacity as well.

5. THE CONDITIONALITY ARGUMENT

According to a widely accepted view, the IMF ought to extend subsidized loans to its members to induce them to adopt the required adjustment policies. The subsidies serve not only as a bait; they are also supposed to be justified by the fact that the acceptance of the policy conditions reduces lending risk both for the Fund and for private lenders. However, it is still difficult to see why the Fund should lend at a lower interest rate than private lenders—given the agreement on the adjustment measures to be taken.

The conditionality argument immediately raises the question why countries are supposed to face an insufficient incentive to adopt the necessary policies on their own. After all, the extent to which, and the terms on which, a country can borrow in the market will crucially depend on the policies which it is expected to follow. As Irving Friedman (1981, p. 241) has put it, "private bank 'conditionality' is unavoidable." The question has been answered in several ways.

A. The Superior Information Argument

Most observers seem to believe that the Fund knows better than private lenders whether a country is creditworthy. IMF officials like to report the fear that bank lending may be available too easily so that adjustment is postponed.[17] It is doubtful whether this view is correct. If it is true that creditworthiness depends on specific rates of return (and willingness to repay) rather than merely on the set of broad macroeconomic variables that figure prominently in the Fund's adjustment programs, bankers—not (macro-)economists—are likely to be at a comparative advantage. Moreover, there are reasons to criticize some of the typical IMF policy conditions, notably the emphasis on devaluation (which is bound to aggravate

[16] In the case of liquidity creation through IMF drawings the donor countries give up part of their seigniorage. To finance their expenditure, the governments of the donor countries have to raise taxes (thus reducing the supply of savings) and/or borrow more in capital market. In both ways, they crowd out private lending—also lending to the developing countries.

[17] See, e.g., Witteveen (1976, pp. 253 f.), Gold (1979, p. 39), IMF (1981, p. 39). Not surprisingly, bankers like Friedman (1981, p. 250) do not share this fear.

inflation)[18] and the recommendation of coercive incomes policies.

The Fund is probably at an advantage to the extent that it possesses confidential information. However, this raises the obvious question why the Fund does not disclose all information that is relevant for the evaluation of creditworthiness.[19] To say that the member countries would not agree is no answer. After all, knowledge is generally recognized as a public good.

The public good aspect rules out the withholding of information by governmental bureaucracies, but it does not necessarily justify the collection, analysis and dissemination of such information. As is witnessed by the foundation of the new Institute of International Finance in Washington, the collection of information can be efficiently arranged by private voluntary associations if the number of beneficiaries is small. Fratianni and Pattison (1982) have even suggested that international economic organizations are unlikely to provide reliable forecasts about the effects of the policies of their member countries: "Why do governments purchase these forecasts? We venture one hypothesis. Each country has a say in what the forecast is concerning the country's performance. These forecasts need not be good in a statistical sense, but may be useful politically. A policymaker may desire public release of false or misleading information in order to pursue certain stabilisation policies despite the fact that private economic agents may efficiently assess all of the information available in the market" (p. 259).

Nevertheless, assume for the sake of argument that the Fund possesses superior information, or at least that private lenders believe this. Does it follow that the IMF should extend subsidized loans to some of its members? Would it not be sufficient for the Fund to act as a (paid?) agent of private lenders in providing information about the required adjustment policies?[20] Why IMF lending?

Williamson (1980) believes that the IMF should lend to enhance the credibility of the information it provides: "There do . . . seem to be some advantages in a position to put up a fair bit of money directly, rather than simply giving a seal of approval that, with luck, will induce the private market to resume lending" (p. 274).

An analogous argument is sometimes made in favor of foreign-exchange intervention. It is logically impeccable but dangerous in practice. How much public money is a govern-

[18] It is also paradoxical in view of the Fund's long-standing preference for fixed exchange rates.

[19] Suggestions that the Fund should make more of its information available to private banks have come from Michael Blumenthal, Arthur Burns, Robert Heller, Henry Wallich and many bankers.

[20] There are several instances in which private banks made their loans conditional on prior acceptance of an IMF stabilisation program (see, e.g., Friedman, 1981, pp. 250–254, and Group of Thirty, 1982b, pp. 54 ff.). The Group of Thirty favors this practice (p. 15) but reports that bankers do not regard the borrower's acceptance of an IMF program as a "decisive influence on their decision" (1981, p. 41). The bank loans to Peru in 1976 are usually cited as a proof that banks cannot formulate and monitor a stabilisation program on their own (e.g., O'Brien, 1982, p. 139). However, many of the Fund's standby or extended arrangements have had to be interrupted as well.

ment permitted to spend or commit in order to persuade the public of its views? Is government propaganda good economics?

Moreover, the same degree of credibility could be attained with much smaller amounts—if the Fund were not committing the money of taxpayers in the creditor countries but part of the salary of those IMF officials who confer the "seal of approval".

B. The Coherence Argument

According to Williamson (1980, p. 274), "commercial banks are not well suited to fulfill the role of negotiating necessary policy changes with sovereign governments . . . partly because optimal competitive strategies for individual banks may not add up to coherent pressure for national policies . . ."

The incoherence problem is well known from multilateral debt reschedulings. An individual creditor does not want to concede grace periods or commit additional funds unless the debtor promises not to use the resulting leeway to repay other creditors. However, this problem has often been solved: the creditors either combine in consortia ("clubs"), or individual creditors make their offers conditional upon the conclusion of similar contracts with other creditors.[21] It is conceivable that the creditors could ask the Fund to act as their coordinating agent in such negotiations. But this does not mean that the Fund itself ought to lend.

C. The Enforcement Argument

The IMF is probably in a better position to enforce policy conditions attached to international loans and, indeed, to enforce repayment itself. This is because the IMF, as an intergovernmental organisation, can impose sanctions that are not at the disposal of private banks. However, to argue that, for this reason, the IMF should co-finance all stabilisation loans is like suggesting that to enforce private domestic contracts the government of the country ought to be a party to each of them. The IMF is well advised to use its sanctions to enforce international loan contracts but it need not lend.

The Bogeyman Argument

It is frequently argued that the IMF should offer stabilisation loans because it is the ideal bogeyman to be blamed for unpopular policy changes. Politicians and voters in the borrowing countries would not be willing to accept policy conditions from private bankers ("the gnomes of Zurich") or even from particular foreign governments. Only "an international body with no direct interests other than maintaining order in the international financial system" (Neu) can "apply policies of conditionality without giving intolerable offense to its members" (Gold) and "without a dangerous fanning of nationalistic flames" (Williamson).[22]

[21] See, for example, Friedman (1981, pp. 257, 261, 263).
[22] Neu (1979, p. 240), Gold (1979, p. 20), Williamson (1980, p. 274).

It is an open question whether aid should be given so as to minimize the humiliation for the recipient, thus weakening the incentive for selfhelp ("the Samaritan's dilemma"). With regard to commercial lending, the situation is different. The lenders will pay attention to the borrower's susceptibilities if they can gain money by doing so. If the borrower prefers policy conditions formulated by the IMF, lenders are likely to entrust the Fund with this task. Once more, it does not follow that the Fund should lend.

6. THE ARGUMENT FROM CAPITAL-MARKET IMPERFECTIONS

Finally, according to an altogether different argument, the case for IMF lending may be based on the assumption of capital market imperfection. Capital markets are said to be inefficient because lenders charge a higher interest rate (or are unwilling to lend) if the borrower cannot offer adequate collateral. This is, for example, why the provision or guarantee of student loans is usually considered a proper task of government. Howe if Wilson Schmidt and Robert Aliber were right that IMF debtors do not suffer from insolvency, the argument is not relevant.

The report of the Transition Report on International Financial Institutions to President Elect Ronald Reagan, (unpublished) submitted in December of 1980 stated the inflationary impact of the Special Drawing Rights and the questionable Keynesian assumptions on which the IMF is based:

SPECIAL DRAWING RIGHTS—INELATIONARY IMPACT

The response of the IMF has been to move to a kind of multicurrency reserve, in the form of the Special Drawing Rights. The SDR is a unit of account comprising a basket of the currencies of the major trading nations. The ratio of these currencies in the basket is altered daily. In one sense, therefore, the SDR is merely a reserve currency that inherently takes account of floating exchange rates. However, to the extent that the SDR becomes itself generally acceptable and SDR reserve accounts are created by the IMF without reference to underlying reserves of national currencies, the IMF's SDR becomes an engine of inflation, expanding world liquidity without any corresponding increase in real product. The IMF's attempts to make the SDR a general unit of account, to make it acceptable in payment of contracts, and to make it possible for SDR reserves to be created unilaterally, all point to this more substantive consequence of the SDR idea.

Ultimately, it may be pointed out that the benefits of stable fixed exchange rates can be attained through the SDR only if the SDR itself is not only a unit of account but a means of final payment, thus abstracting from exchange rate variations. As a historical matter, such multicurrency arrangements have shown little stability over the long term, because they require the participating countries to give up their mone-

tary independence and sovereignty, "importing" the inflation dominant partners in the arrangement. Given the old-style Keynesian framework of the IMF, which holds that underdevelopment is a function of lack of liquidity in the world, it can hardly be hoped that an SDR reserve currency will fail to generate substantial worldwide inflation by direct creation of reserves. The United States would either have to lead in this inflation or follow in it. Neither consequence is desirable.

ECONOMIC ASSUMPTIONS AND THEIR VALIDITY

It is worth noting that John Maynard, Lord Keynes was the intellectual pioneer for the Bretton Woods Agreement that established the IMF. To do him justice, we should recognize that he envisioned a system of international reserve loans that was vastly superior to the gold exchange standard (not a full-bodied standard) that had been undermined and destroyed by the failures of British and American monetary policy in the 1920's.

But Keynes' system basically looked at the problem as one of interrelations among closed economies—a self-contradiction. After Keynes' death, his followers extended his theories to truly open economies. But in doing so, they failed to make the distinction between a currency devaluation by one country to bring its domestic prices in line with world levels and a general devaluation of all currencies against gold. Not understanding the overvaluation of the British pound in the 1920's, nor therefore seeing how it should have been corrected, these Neo-Keynesians were led to view exchange rate changes as being of little use.

With rigid exchange rates among currencies and with gold, the stage was set for using competitive and accelerating inflation as a method of covering imbalances in world trade. The notion of a shortage of world liquidity was put forth as justification for this process, and is still believed in, even though it became clear quite some time ago that world prices were being propelled upward in large part by currency and reserve issues far in excess of production gains that were either actual or even possible.

Thus, under Neo-Keynesian rigidities of thought, Keynes' improvement on the gold exchange standard has been converted into an engine of world inflation. New thinking, of a wholly different sort, is needed before disaster again overtakes the world economy as it did in the late 1920's.

Conclusions

The International Monetary Fund, once a lynchpin in a creaking international gold exchange standard is today a means of transfering resources to less developed nations—often resulting in the perpetuation of policies causing poverty, slow growth and internal disorder.

That there is debate on the question of the IMF's "foreign aid" role

is understandable. It has traditionally been more difficult to obtain Congressional approval of direct foreign aid legislation. The IMF, since it is "off budget" generally gets smooth sailing. Thus, its proponents wish to do what they can to minimize the giveaway aspect of the institution. This year they also have to minimize the "bail out" aspect of the institution.

If IMF loans were at rates equal to those in the free market, then the marketplace would be the lender, not the IMF. Thus there is a subsidy equal to the difference between the market price for a given IMF loan and the IMF rate. That is the magnitude of the subsidy as long as the loan is repaid. As we learn in the paper by Roland Vaubel, "The Moral Hazard of IMF Lending," many major IMF clients are those that regularly reschedule their IMF loans.

Since the IMF imposes "conditionality", we must assume that there are some real or perceived costs to the recipient nation of those conditions. If those costs come near the amount of the subsidy (the cost of a free market loan less the cost of the IMF loan), then the client nation would probably go to the free market. Thus, we can show that even with "conditionality" the IMF provides a subsidy to the recipient nation equal to the cost of the free market loan less the cost of the IMF loan and the cost of the conditions.

The only way that a nation can get into the kind of trouble that the IMF can allegedly help is to have a monetary policy inconsistent with its other economic policies.

For example, if a nation ran a regular balance of payments deficit and stifled its economy by over-taxation and over-regulation, it would find that its exporters could find few buyers of its produce. (During the period of the Marxist government of Madam Sirimavo Bandaranaike, Sri-Lanka (Ceylon), that nation went from one of the world's largest exporters of rice, to a net importer.) The lack of foreign earnings (or the lack of ability or willingness of world traders to purchase goods from a nation with its currency) means that the international value of that nation's currency drops. There are too many pounds, or qetzels or lira in the world, and their value declines until the goods they can purchase is internationally competitive. If, however, the International Monetary Fund comes in, it may provide funds to allow the nation to go into world exchange markets and buy up unwanted currency of that nation, thus preventing the currency from falling in value—a decline that might mean that its exports again would become competitive.

When the IMF was founded, its loans were temporary, and could accommodate short-term difficulties. Today we see something called "structural adjustment loans" which are in effect for longer periods of time. These longer loans mean that there are fewer penalties for mismanaging the economy.

Since the central bank of the client nation must bear chief responsibility for allowing the currency to fall in value (by not adopting policy changes aimed at keeping money supply parallel to the demand for the currency), it is a small irony that the recipient of IMF funds is the central bank of the client nation. Since we have shown that the IMF loans are granted at a subsidy rate, the delinquent actions of the client nation's central bank are therefore subsidized. This is a strange set of incentives.

In sum, the IMF not only provides a transfer of real resources, it encourages policies that lead to a lower standard of living in poorer nations. At the very least, if advocates of foreign aid seek to spend American resources abroad, there surely must be means of doing so more productively. The IMF is an institution that has outlived its usefulness in this age of floating exchange rates and sophisticated capital markets. Its chief remaining virtue is its capacity to assemble information on nations for the use by capital markets. Such a function could lower the information costs for capital allocation, thus bringing swifter rewards to those nations that adopt pro-growth policies. The only problem with the IMF serving as an information clearinghouse is the kind of information the IMF obtain and how it is evaluated. In recent times, the IMF has ignored the policies that lead to economic disorder and subsequent currency collapse and have recommended high tax rates as a means of getting out of problems. Its function as a financial intelligence agency would be better served if it focused on whether or not a nation adopts policies conducive to economic growth and stable exchange rates.

To dump this Nation's resources into the hands of those who do not adopt pro-growth policies can only be justified on political, not economic, grounds. Such political aid should be bilateral where American interests can more properly be served.

Options for Congress

1. Reject the quota increase

It is my view that the case for added IMF resources has not been made. The Vaubel paper argued that there is no solvency problem, as the Ad Hoc Committee on International Debt and U.S. Financial Policies argued, there is no evidence of a liquidity shortage. There are funds available in the IMF and in world capital markets for special cases. Added funds in the hands of the IMF will apparently be used for maintenance of unrealistic currency valuations and the policies that initially resulted in the decline of those in currency values.

Because the IMF has considerable resources to manage already and can serve as a clearinghouse of information without a quota increase, the request for added funds should be declined. Because the GAB authority is to be used in conjunction with IMF loans, and thus would contribute to the same problems generated by the IMF, the increase in the GAB authority should, similarly, be rejected.

2. Reduction from the requested authority

There are many Members of Congress who believe that the IMF can serve an important purpose, but the massive 47% increase in resources is excessive. In fact, until this year, the Administration's position on the IMF quota increase was that it would support at most a 25% increase. For this reason I believe that Congress should consider increases of only one-half that requested for both the IMF quota and the GAB increase. It is my intention to offer such an amendment when the Senate considers this legislation.

3. MAKE INCREASED AUTHORITY TEMPORARY

The current alleged financial crisis is, by all accounts a temporary problem.

If Congress agrees that the IMF and GAB resources need to be bolstered for this crisis, then surely, that authority should be extended only until the "crisis" is passed. The Congress should consider making the increase in the IMF quota and the increase in the GAB authority expire at the end of fiscal 1984 or 1985. It is my intention to offer an amendment to this effect when the Senate considers this legislation.

4. RESTITUTE IMF GOLD

The United States ratified the Jamaica amendments to the Bretton Woods Agreement in 1976, a change in the IMF charter which formally "demonetized" gold. In the negotiations on those amendments, it was decided to sell 25 million ounces to the nations that originally provided the gold. The original purpose for the IMF to have gold was to use it to assist nations with balance of payments problems. Gold is no longer used for this purpose; thus the IMF should continue with the program adopted in 1976 and restitute the remaining gold to member nations. Nations would exchange the gold at the official price of SDR 35 per ounce. This exchange would increase the amounts of SDRs the IMF could utilize in its program. The nations which owned the gold could use that resource as they saw fit.

5. ESTABLISH A GOLD LENDING FACILITY IN LIEU OF A QUOTA INCREASE

If Congress chooses not to direct the U.S. Director to see restitution of IMF gold to member nations, no increase in IMF resources should be provided by means of the requested quota increase. Rather, Congress should instruct the U.S. Director to the Fund to seek the approval of a new Gold Lending Facility in order to make more resources available to IMF client nations. As described above, the IMF could lend gold to client nations, which could then use it as collateral for low-interest commercial loans. At current market prices, this procedure would mean an increase in IMF usable assets of over $40 billion. Instead of putting up more U.S. dollars for the IMF, unused IMF resources should be put to work.

6. REQUIRE CONGRESSIONAL APPROVAL FOR IMF RESOURCE INCREASES

At the present time, only quota increases require Congressional approval. Today, a vote by the U.S. Director to increase the IMF's issuance of SDRs does not need Congressional approval. Similarly, a vote to approve the issuance of bonds such as those issued by the World Bank would not necessarily require Congressional approval. (The World Bank issues bonds in the commercial market guaranteed by the full faith and credit of the United States.) It is also possible that the IMF would use its gold as collateral for loans.

Insofar as the issuance of added SDRs are convertible into dollars, they are actually an increase on resources of the U.S. By voting to

increase SDRs, the U.S. Director could effectively approve the transfer of resources from this nation to the IMF and its client nations as effectively as a quota increase would do. Congress therefore should have to authorize any action by the U.S. Director to approve an increase in SDRs.

In addition, the issuance of bonds by the IMF could represent possible claims against the U.S. Treasury. Congress therefore should also have to authorize any action by the U.S. Director to approve the issuance of such bonds.

Finally, though the use of IMF gold as collateral would not be as inflationary as a new issuance of SDRs or the issuance of bonds, it represents an increase in world liquidity that should receive Congressional approval before the U.S. Director votes to approve such a new IMF operation.

It is my intention to offer amendments concerning these problems to the IMF authorization bill when the Senate considers this legislation.

JESSE HELMS.

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